

**THE EFFECTS OF ECONOMIC TRANSITION
ON VOTING PATTERNS IN POLAND: 1990-1995**

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Abstract

Controversy continues over the political economy of post-communist Poland, regarding both the impact of transition on living standards, and the strength of relations between individual and household-level changes and political support for economic reform. The case of Poland is one example of a more general phenomenon in Central and Eastern Europe (e.g. Hungary and Lithuania), in which parties led by former communists have been democratically elected into power.

Poland's reforms from the mid-1980s to 1995 developed in four phases: pre-reform crisis, extraordinary politics, post-reform crisis, and recovery. In 1990, the adverse impact of liberalization on households' living standards was partially offset by improved consumer good supply: "real" wages fell by 30%, but consumption decreased by approximately 15%. In the medium term, the self-employed and unemployed are the clearest winners and losers. Most others are in a middle category; material conditions remained stable -- even during the recession of 1990-1991 -- and by some indicators improved substantially.

One implicit cost of transition borne by individuals and households is the rise in economic uncertainty. Increased unemployment and poverty, indicators of uncertainty, are concentrated in identifiable socioeconomic groups. Labor markets and poverty profiles are converging with those in advanced markets, suggesting that these problems may not be simply transitional.

The distributive impact of transition is reflected in voting patterns. The dependent variable of regional vote shares are regressed against independent variables: unemployment, income, urbanization, and farming and trade sector employment. The most important factor behind electoral support for the former-communist SLD is unemployment.

Voting is then examined through a simple rational choice model. When parties can be differentiated by the weight of pragmatic versus (identifiable) ideological policy preferences, voters act rationally and choose the party which combines dominant pragmatism with an ideological stance close to their own preferences. Voters punish overly rigid or ideological parties for lack of responsiveness to their economic interests.

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Dedication

To my Mother and Father

List of Terms and Acronyms

AWS	<i>Akcja Wyborczej "Solidarnosc"</i> ("Solidarity" Electoral Action).
BBWR	<i>Bezpartyjny Bloc Wspierania Reformy</i> (Non-party Bloc in Support of Reforms).
CBOS	<i>Centrum Badania Opinii Społecznej</i> (Center for Social Opinion Research).
CMEA	COMECON, or Council for Mutual Economic Assistance.
CPI	Consumer price index
EBRD	European Bank of Reconstruction and Development
EU	European Union
FOZZ	<i>Fundusz Obsługiwania Zadłużenia Zagranicznego</i> (Fund for Servicing Foreign Debt).
FSO	<i>Fabryka Samochodów Osobowy</i> (producer of "Polonez" car).
GDP	Gross domestic product
GDR	German Democratic Republic
GUS	<i>Główny Urząd Statystyczny</i> (Central Statistical Office).
HBS	Household Budget Survey
ILO	International Labor Organization
IMF	International Monetary Fund
KK	<i>Kongres Konserwatywny</i> (Conservative Congress).
KLD	<i>Kongres Liberalno-Demokratyczny</i> (Liberal-Democratic Congress).
KPN	<i>Konfederacja Polski Niepodległej</i> (Confederation for an Independent Poland).
LFS	Labor Force Survey
NBP	National Bank of Poland (central bank).
NMP	Net Material Product
NSZZ "S"	<i>NSZZ "S"</i> ("Solidarity" Trade Union).
OBOP	<i>Osrodek Badania Opinii Publicznej</i> (Bureau for Public Opinion Research), affiliated with state television and radio.
OECD	Organization for Economic Cooperation and Development
OPZZ	<i>Ogólnopolski Porozumienie Związków Zawodowych</i> (All-Poland Trades Union). Communist-era trade union, still in existence.
PAP	<i>Polska Agencja Prasowa</i> (Polish Press Agency).
PChD	<i>Partia Chrześcijańskich Demokratów</i> (Party of Christian Democrats).
PL	<i>Porozumienie Ludowe</i> (Peasant Alliance).
POC, PC	<i>Porozumienie Obywatelskie Centrum, Porozumienie Centrum</i> (Center Alliance).
<i>popiwek</i>	PPW (excess wage tax).
PPPP	<i>Polska Partia Przyjaciół Piwa</i> (Polish Friends of Beer Party).
PSL	<i>Polskie Stronnictwo Ludowe</i> (Polish Peasant Party).
PZL	Polish zloty (before 1995 renomination).
PZN	New Polish zloty (after 1995 renomination, 1 PZN = 10,000 PZL).
PZPR	<i>Polskie Zjednoczone Partia Robotniczej</i> (Polish United Workers' Party).
RdR	<i>Ruch dla Rzeczypospolitej</i> (Movement for the Republic), led by Olszewski.

ROAD	<i>Ruch Obywatelski – Akcja Demokratyczna</i> (Citizen's Movement -- Democratic Action). Post-Solidarity electoral coalition for Mazowiecki's 1990 presidential campaign.
RPI	Retail price index.
SD	<i>Stronnictwo Demokratyczne</i> (Democratic Alliance). Political party allowed under communist regime.
SdRP	<i>Socjaldemokracja Rzeczypospolitej Polskiej</i> (Social Democracy of the Polish Republic). Successor party to the PZPR.
<i>Sejm</i>	Lower house of Polish parliament
<i>Senat</i>	Upper house of Polish parliament
SLD	<i>Sojusz Lewicy Demokratycznej</i> (Union of the Democratic Left). Political coalition of SdRP, OPZZ, and PS.
SOE	State-owned enterprise
U/V	Ratio of registered unemployed to advertised vacancies.
UD	<i>Unia Demokratyczna</i> (Democratic Union).
UP	<i>Unia Pracy</i> (Union of Labor)
UPR	<i>Unia Polityki Realnej</i> (Union of Real Politics).
UW	<i>Unia Wolności</i> (Freedom Union).
VAT	Value-added tax
WAK	<i>Wyborcza Akcja Katolicka</i> (Catholic Electoral Action).
WOG	<i>Wielka organizacja gospodarcza</i> (large economic organization).
województwo	Province
ZChN	<i>Zjednoczenie Chrześcijańsko-Narodowe</i> (Christian National Union).
złoty	Polish currency
ZSL	<i>Zjednoczone Stronnictwo Ludowe</i> (United Peasant Party). Communist-era peasant party, in 1990 re-named PSL.

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Chapter 1

The Political Economy of Transition in Poland

1.1 POLITICS AND THE ECONOMIC TRANSITION IN POLAND

The economic and political transition in Poland and the other post-communist countries of Europe has been an unprecedented experience: an economic transition from a centrally planned, socialist economy to an open, market economy, and a political transition from one-party authoritarian politics to a multi-party democracy. In the six years from the formation of the first post-communist government in September 1989 to the election of former Communist sports minister Aleksander Kwasniewski to the presidency in December 1995, Poland underwent tremendous change. Within the changes wrought by transition, there have also been some interesting paradoxes. Despite seven changes of prime minister, there has been surprising continuity in the pursuit of market reform. Despite a high fragmentation and polarization of the party system, democracy has consolidated and the relations of government and opposition are similar to those in established democracies. While post-communist Poland has been the object of intense scholarly scrutiny, there are still many unknowns. Most important of these is the interaction of economic reform on political preferences and voting behavior.

Poland's post-transition market economy and democratic system are still developing. At the start of this research program in 1993, very little was known about the distribution of economic costs and benefits, and the position of different socioeconomic groups both relative to other groups and in relation to their own status under socialism. At the present time, after two freely contested parliamentary and two presidential elections, much is still unknown about the dynamics of voting behavior and particularly the extent of economic voting. In this thesis, these unknowns are addressed in a spirit of inquiry which aims at reaching a balanced analysis, informed by contemporary intellectual advances in rational choice theory.

The course of transition can be signposted by several significant events. The rise of Solidarity and its charismatic leader Lech Walesa in 1980 and the imposition of martial law in 1981 mark the beginning of the end of communism in Poland. The

Roundtable Agreement of 1989 was the political turning point, as the agreement provided for semi-free parliamentary elections and greater freedom of association. In an unanticipated but decisive result, Solidarity routed their opponents from the Polish United Workers' Party (PZPR) in the June 1989 elections for the one-third of seats in the parliament (*Sejm*) which were freely contested, and Solidarity candidates won 99 of the 100 seats in the newly created upper house (*Senat*). After the election, Solidarity politicians were infused with new confidence while the PZPR sustained a crushing defeat in morale and purpose. After several failed attempts to form a functioning communist government, in September 1989 two smaller parties which had been allowed to exist under socialism left the PZPR coalition and helped to form the first post-communist government. The former opposition leader and renowned Catholic intellectual Tadeusz Mazowiecki was named prime minister.

At the same time that Poland's communist regime faced the collapse of their political monopoly, the country entered a disastrous economic crisis. Throughout the 1980s, the Polish consumer was confronted by empty shops and long queues whenever goods did appear for sale. The failure of the system to provide a steady and sufficient supply of consumer goods fueled public discontent. After several failed attempts to raise administered prices, one of the last acts of the outgoing socialist Rakowski government was to liberalize retail food prices in August 1989. While freed prices were intended to rise to an equilibrium level which would absorb the monetary overhang, people were repeatedly compensated for rising prices in rounds of wages hikes across industries and sectors, nullifying the impact of price rises. In the final months of 1989, the economy slid towards hyperinflation and collapse.

In the autumn of 1989, the Mazowiecki government designed a program of liberal economic reform, prepared under the coordination of Finance Minister Leszek Balcerowicz. The central element of the Balcerowicz Plan was the "big bang" of January 1990. 90% of prices were liberalized, and all forms of international and private domestic trade and economic activity were permitted (except for those specifically proscribed by law). The previously overvalued currency, the zloty, was devalued and fixed at a rate of 9,500 to the US dollar. The government committed itself to slashing subsidies to consumer prices and to state-owned enterprises.

Heterodox elements were included, most importantly the *popiwek* excess wage tax¹. The stabilization program received the support of international institutions, and was underwritten with \$1 billion from the International Monetary Fund.

In the political sphere, there were two rounds of elections in the first year of reform: local elections held in May 1990 and presidential elections held in November 1990. In the presidential elections, Lech Walesa, the leader of the Solidarity trade union, was victorious, with Prime Minister Mazowiecki beaten for second place by the eccentric, shadowy populist Stanislaw Tyminski.

Balcerowicz has described the honeymoon period following the fall of an unpopular regime as one of "extraordinary politics", where the government and its policies are accorded a high level of public acceptance and support. The high popularity tends to last until either stabilization takes hold and the economic crisis recedes, or until the next national election campaign. Both of these occurred in Poland during the fourth quarter of 1990. As the transition neared its second year, the threat of inflation was replaced by the growing threat of unemployment. The rise of recorded levels of unemployment from 6% in November 1990 to its peak of nearly 17% in the summer of 1993 fundamentally changed the nature of the economic debate in Polish politics.

In October 1991, the Sejm elected in the semi-free 1989 vote was replaced in a freely contested race. Because the electoral law allowed for a highly proportional list system with no minimum percentage thresholds, the Sejm was very fractionalized, with up to eight parties needed to form a government. The parties most closely identified with the Balcerowicz Plan experienced a loss in electoral support.

In July 1993, the seven-party Suchocka coalition government was brought down by a vote of no confidence led by Solidarity deputies. Elections were held in September 1993. The two largest post-communist parties, the Alliance of the Democratic Left (SLD) and PSL, gained a majority of seats in the Sejm. The post-communist SLD had operated as the largest parliamentary opposition since the 1991 election. While the recession had bottomed out in mid-1992, after which time most

¹ One of the heterodox stabilization measures implemented as part of the "big bang", the *podatek przeciw wzrostu wynagrodzen* (tax on income rises) was a standard tax on excessive wage rises which exceeded a wage norm determined by a coefficient based on the consumer price index. Liabilities were calculated at draconian levels, at several hundred percent of the amount by which the average wage (then the wage bill) exceeded the norm. See Coricelli and Revenga (1992).

indicators revealed dynamic growth, economic growth did not translate into appreciable increases in average wages until 1995. At the time of the 1993 parliamentary elections, real incomes were still stagnant and the unemployment level had just peaked at 16.9% one month previously. The government coalition formed by the SLD and PSL has remained in office to the time of writing in May 1997.

The 1993 election was a watershed for several reasons, most importantly because it marked the rehabilitation of the SLD as a viable and legitimate political force. This event was not isolated to Poland. Post-communist parties in Hungary in 1994 and Lithuania in 1993 also won election victories, and all Central and East European countries have experienced a similar rise in support for post-communist parties. The election also emphasized the destructive fragmentation among the anti-communist "center-right", which forced post-Solidarity politicians into opposition.

While these paragraphs have presented only a thumbnail sketch of the course of the first stages of democratic and economic transition, they show how events moved at great speed. Also, discontent with the economic system fed through into political discontent, and political and economic reform became inseparable. In the following chapters, these questions will be pursued in depth.

1.2 GENERAL DISSATISFACTION AND THE RISE OF SECTORAL INTERESTS

Since the December 1990 elections, the main political economy debate in Poland shifted from the universal concerns of supply constraints and high inflation to more sector-specific questions as unemployment, competition from imports, pension and benefit levels, and state support for unprofitable industries, such as coal mining. Distributional issues have come to the fore, in keeping with the representative function of competitive democracy.

It would be reasonable to expect that it would take time for social and occupational groups to develop informed preferences concerning their economic interests. In the Polish case, the exception to this is the peasant farming sector. The Polish Peasant Party (PSL) continued to represent the interests of Poland's small private farmers and the food industry in general, as they had done under the socialist regime. Yet while socioeconomic groups and sectors need time to ascertain which

are the optimal policies for their interests in a rapidly changing economic climate, there are some indications links between economic status and voting emerged fairly early in Poland's consolidating democracy².

In the wake of the 1993 election, many voices spoke about the democratic rejection of radical reform on the basis of unacceptably high "social costs". This dissertation examines the scale and distribution of social costs, and then tests the hypothesis that the election of 1993 was the result of general dissatisfaction and discontent with the course and costliness of reform.

My thesis argues for the rejection of this hypothesis. The impact of transition has varied widely across social, economic, and occupational groups. The socioeconomic groups used in official Household Budget Surveys have proved to be a useful means of analysis at all stages of research. This research has found that it is possible to identify classes of winners and losers. However, a greater proportion than often assumed falls into a middle category, in which material conditions have not deteriorated as sharply as originally thought. By some measures, the majority of the population has experienced an improvement in material conditions, even during the hardest years of the transformational recession.

Furthermore, voting patterns display differentiation by socioeconomic group and regional economic performance. Groups and regions with greater prosperity and lower jobless rates are more favorably disposed towards parties closely identified with pro-reform policies. Areas worse affected prefer parties which campaign in more redistributive platforms. A sizable proportion of the agricultural sector votes for peasant parties, and labor provides the greatest share of voters for socially conservative parties with pro-labor but generally more ambiguous economic policies.

This dissertation will demonstrate that the most important factor behind the rise in support for the SLD has been the rise in unemployment. The registered jobless rate peaked at just under 17% in the summer of 1993, right before the election. At present, the unemployment rate is gradually receding, and post-Solidarity parties of the center-right are gaining strength. To what extent are these shifts occurring as a result of lessened economic insecurity, or is the rise in the right a result of long-

² However, volatility of voting behavior is quite high, with one estimate indicating that 85% of the electorate had switched the party for which they voted at least once.

delayed consolidation of a fragmented party structure? These questions will be pursued in the following chapters.

1.3 POLITICAL ECONOMY OF ECONOMIC REFORM: THEORETICAL BACKGROUND

One strand of the discipline of political economy studies economic policymaking within institutional and political constraints. Alesina (1995) notes that such models are useful in explaining why countries with very similar resource constraints and economic problems can have very different economic performance. Institutional constraints can arise from the political/electoral system and incentives for politicians, distributive conflicts, and ideology.

Political economy can also extend analysis in the other direction. While economic models such as Alesina's study the impact of political institutions on economic policymaking and outcomes, political or voting models examine the effect of economic conditions on political support or coalitions for reform. Haggard and Webb (1993) classify political economy discussions of economic reform into three useful categories: (1) the effect of political institutions on adjustment, (2) the links between economic conditions and the politics of reform, and (3) how the design of the economic reform program influences the pattern of political support or opposition.

Political institutions and adjustment. In established democracies, electoral and party systems are linked with economic outcomes through the study of political business cycles (Nordhaus 1975) and the comparative study of partisan preferences of incumbents and macroeconomic performance (Hibbs 1977, 1987; Alesina 1988). Study of party systems can also include how parties target different segments of the population, the effects of coalition and single party governments on the conduct of economic policy, and the destabilizing effects of a fragmented party system. For instance, the study of the success of stabilization programs under different regime types and stages of democratic consolidation (Haggard and Kaufman 1989) can be applied to the situation in several of the new democracies in Central and Eastern Europe which inherited a disastrous macroeconomic legacy from the expansionary policies pursued by communist parties in the late 1980s.

Economic conditions. This type of political economy model analyzes the impact of economic performance on political outcomes; this mode of analysis will dominate in this dissertation. Haggard and Webb emphasize three relevant aspects of economic reform: (1) The longer the crisis, the more tolerant and accepting the public will be of radical reform; as the crisis becomes less critical, reform becomes less urgent and distributive pressures and resistance to reform increases. (2) Similar to the credibility argument from rational expectations, present reform programs will be influenced by the outcomes of previous reforms, and the perceived chance of reform after a string of failures may depend upon its receiving support from former opponents of reform (see also Murphy and Sturzenegger, 1994 and 1996). (3) The distribution of income pre- and post-reform can affect the level of consensus for reform. Alesina and Tabellini (1988) conclude that greater inequality leads to greater polarization of parties, greater areas of policy blocking by the opposition, and therefore less efficient politics.

Design of the program. In particular, this type of argument is concerned with whether reform programs can be designed to optimize the building of political constituencies in favor of reform. Compensation for losing groups may be expedient in order to sustain political support, or at least minimize political opposition to reform. However, compensation can be counterproductive if it undermines the reform program, e.g. protectionism or transfers from the budget to specific groups. The debate over sequencing aims to find how to institute complementary reforms, e.g. trade liberalization to deflect the impact on enterprises of lower domestic demand, the provision of health and education services to the disadvantaged, and so on.

Aggregate and distributional effects

Now that the various types of political economy approaches have been discussed, the next step is to identify the all-important costs and benefits of transition is to make distinctions between the aggregate and distributional effects of economic reform, as well as between short-term and more permanent changes. Przeworski (1991) provides a useful breakdown of aggregate and distributive changes into those which will have transitional and long term impacts. Poland's "big bang" resulted in transitory shocks, including a temporary inflationary surge and a reduction in output.

As the purpose of transition is to increase aggregate welfare over the long term, there should be an improvement in aggregate indicators for output and consumption in the medium term, the “j-curve” argument. By 1996, Poland was the one transition economy where national product has surpassed the net, socialist-era production of 1989, with arguably greater total utility. In the second half of 1992 and 1993, the return to growth was dominated by rising consumption. While personal consumption and living standards continue to improve, in 1994-1996 the recovery has been fueled by investment and especially investment in the new private sector. Provided these trends continue, it is a relatively safe prediction that personal consumption will continue to rise, even if at more moderate lower rates, and that higher levels of rational, market-led investment will lead to higher productivity and production.

As for distribution, reform has had transitory effects on real and relative incomes, as described in section 3.2. Longer term distributional effects will be manifested through the worsened position of those groups which were protected or received preferential treatment under the socialist system. This includes not just shift in relative wages according to labor market demand, but also the rise in unemployment and poverty rates.

Under “real socialism” in Poland, the allocation of resources was determined by political criteria. Incomes were leveled across job descriptions and skill levels, but could be considerably higher in targeted sectors and regions. Blue collar workers and, in the latter half of the 1980s, farmers profited the most from the redistributive parity policy. Socialized consumption delivered a basic standard of living through subsidized housing, utilities, and yearly holidays for many employees and children. The shortage economy leveled consumption possibilities, as low income households, particularly the elderly, could expend time queuing to acquire goods sold at low, administered prices, while those with higher incomes paid the black market premium.

The difference with transition is that distribution is now largely determined by market relations, and greater disparities have emerged in income and especially wealth. Except for obvious exceptions (people with “transferable skills” such as languages and professional skills on one hand, and very low-skilled, poorly educated workers and people without a reliable income source on the other), there was a great

deal of *ex ante* uncertainty about how the post-reform distribution of consumer welfare would look.

In this environment of uncertainty, there were opportunities for scaremongering as well as overly positive estimates. Future Finance Minister Grzegorz Kolodko was among the most pessimistic, drawing parallels with stabilizations in Latin America. Kolodko stated that in Bolivia unemployment jumped from 10% to 20%³ and 21% in Chile⁴, and implied that jobless rates would climb at least as high in Poland. Rostowski (1989) was even more pessimistic, predicting unemployment of 25-40%. It was generally acknowledged that there would be open unemployment during transition⁵, but few others dared to make forecasts of how high the rate would go. Most other reports in late 1989 concentrated on the rate of inflation stabilization and the impact on production and consumption. The Central Planning Office (CUP) made three estimates of the outcomes of the "big bang", even the most conservative of which turned out to be wildly optimistic⁶. Their worst case forecast estimated that for 1990 GDP would fall 5 percent, consumption would be down 6 percent, and accumulation (investment) by 3.3 percent, and this in an environment where firms reacted slowly to the market. Their middle case put 1990 GDP at the same level as 1989, and the most optimistic scenario saw GDP growth of 3.8 percent, consumption up 3.4 percent and investment up 1.8 percent, with firms adapting easily to the market.

There is evidence that people's understanding of the distributive impact of reform aligns with actual performance, as recorded in official figures. The full extent of unemployment emerged over the course of three years. As the actual rate of unemployment rose, people felt more threatened by joblessness. In November 1990 (the date of the first presidential election), 48% of respondents thought there was a distinct possibility of losing their job, whereas in October 1991 (the first freely contested parliamentary election), this figure was 55%⁷. Not only did perceptions of threat accord with the actual incidence of unemployment, but the groups which felt

³ *Zycie Gospodarcze*, 24-31 December 1989, p. 3.

⁴ *Zycie Gospodarcze*, 3 December 1989, p. 1.

⁵ S. Chelkowski, "Co z tym bezrobociem?", *Zycie Gospodarcze*, 12 November 1989, p. 2.

⁶ *Zycie Gospodarcze*, 10 December 1989, p. 4.

⁷ CBOS (1991), "Opinia społeczna o planie Balcerowicza i kierunku prywatyzowania gospodarki", Report No. 816/91, November, p. 12.

more at risk did experience greater rates of joblessness (See Chapter 4). For example, a sizable majority of unskilled workers (78%) and agriculture and forestry employees (98%) believed they would probably become unemployed. This fear was higher amongst people with vocational education, and this group has in fact experienced greater rates of joblessness. Interestingly, this symmetry between actual and perceived threat was not reflected by regions. Fear of becoming unemployed was greater in urban regions, such as Warsaw and Krakow, which have had the lowest regional unemployment rates and lower in higher unemployment areas such as the north-eastern Bialystok region.

At present, it may be still too early to conclude to what extent these trends will characterize the post-transition economy, although empirical data demonstrates that the Polish economy is experiencing improved aggregate performance. Economic uncertainty now levies a new type of cost on households, with the unemployed and those dependent upon social benefits experiencing the lowest income and consumption levels. In contrast, the private sector, including both employees and entrepreneurs, is experiencing strong, dynamic expansion in wages and production.

1.4 AN OUTLINE OF THE DISSERTATION

The intellectual basis of this dissertation is rooted in the pioneering experience of Poland. It was the first country within the Warsaw Pact to undertake radical liberalization and stabilization policies. It led the region in the introduction of multi-party elections and democratization. Through the 1980s, Poland had a thriving civic culture, within which economic issues of efficiency and distribution were discussed.

At the time this dissertation was started, the case of Poland was particularly interesting in terms of its political economy. In the autumn of 1993, the Suchocka government had just received a vote of no confidence, and the October 1993 elections brought a coalition of post-communists into government. The election campaign was riddled with references to the falling standard of living in Poland, greater levels of impoverishment, and greater inequality. While the costliness of the reforms received wide and possibly exaggerated coverage, the benefits of reform went largely unmentioned. To quote two economists, "an important role of academic research is

to investigate whether popular notions indeed square with rigorous analysis.”⁸ The aim of this research project is to square popular beliefs or conventional wisdom with findings reached through rigorous empirical research.

This dissertation is primarily concerned with questions along the lines of the second type of political economy model discussed by Haggard and Webb, which asks how economic conditions and the distribution of costs and benefits across socioeconomic groups affect political choices. In discussing the “winners and losers” of transition, this dissertation emphasizes that the political economy of distribution is not something which only emerged in the post-communist period. As Fernandez and Rodrik (1991) stress, the proportion of the population said to be winners or losers *changes* during transition. This change in proportion can influence the level of support for reforms. Comparison of empirical data on the income and consumption patterns of socioeconomic groups with public opinion data on who has fared better and worse during transition show uniform results, indicating that people also have a fairly accurate perception of the relative impact of transition across social groups (see section 4.2).

The third chapter aims to develop as accurate and descriptive picture as possible of changes in material living standards in Polish households. The motivating hypothesis behind this chapter was that not all households would be affected equally. Some households and occupational groups would gain significantly during transition, some would lose, and others might remain stable. Chapter 3 sets out to ask whether patterns of winners and losers can be distinguished through patterns of income and consumption, the fundamental measures of material living conditions.

The intellectual drive behind Chapter 4 originated in the acknowledgment that according to the life cycle theory on living standards, material conditions over time are affected by variations in real and imputed income. Chapter 4 addresses two of the most feared aspects of transition: unemployment and poverty. Unemployment, of course, is a factor behind depressed income and consumption levels in affected households. On the other hand, poverty is not a cause but rather a manifestation of increased hardship. Poverty lines and estimates serve as indicators of what proportion of the population is how far below (variably defined) minimum acceptable

⁸ M. Slaughter and P. Swagel, *Financial Times*, 28 May 1997, p. 14.

consumption levels. What both these phenomena have in common is their link to heightened economic uncertainty.

The second part of Chapter 4 presents a detailed examination of the changing labor market in Poland and especially the intensity and distribution of the new problem of unemployment. This section not only considers the rise in aggregate measures of unemployment through Labor Force Survey and official data, but also considers reasons why unemployment has risen in Poland and, perhaps surprisingly, why it did not rise more quickly than it did. We are also able to make several observations about the dynamics of unemployment, and the level of risk or uncertainty for the population at large. The chapter then breaks down the aggregate rates to consider the distribution of unemployment across region, educational attainment, age, sex, and other critical variables. The purpose is to find which groups have been more at risk of becoming unemployed, which groups are more apt to remain unemployed once made redundant, and which groups are in a better position in the current labor market.

The third part of this chapter examines another topic which has been in the forefront of popular concerns about living standards during the transition. Of all the negative consequences of transition on the household, poverty is the most feared. Undoubtedly, the incidence of poverty has increased since the mid-1980s, and arguably since 1989. However, the scale and intensity of poverty depends greatly upon how the threshold is set. In this section, the methodological definition of different poverty lines are discussed, and the resulting estimates for Poland compared against each other. The chapter find that the extent of poverty depends upon where the line is drawn, and which data is used as the basis of analysis. From these considerations, the chapter then examines the relative position of socioeconomic groups. Using the same social and occupational household types used in Chapter 3, the incidence of poverty is analyzed. To link the analysis into the framework used in the section on unemployment, the relative incidence of poverty by education and age is also considered, as is the relation between unemployment and poverty.

While the interconnection between economics and politics is indicated in Chapter 2, it is not proven by the data shown. Chapters 3 and 4 are primarily concentrated on the economic side of the equation. While important questions about

the costs and benefits -- and winners and losers -- of reform have been addressed, the next question is what has been the impact of these factors on electoral politics.

That a link exists between economic performance and electoral behavior is widely assumed to be true, not just in advanced market economies (viz., the growing literature on economic voting) but also in transition economies. Chapters 3 and 4 provide important contextual information for Chapter 5, which examines voting patterns in Poland from 1990 to 1995. More specifically, Chapter 5 uses standard methods of analysis to ask whether and to what extent variations in economic performance can explain election results. Chapter 5 is predicated on the hypothesis that the distributive impact of transition has affected election outcomes in Poland. Through the research, I have found that the hypothesis of economic voting is verified, and that there are clear links between the level of unemployment and the level of electoral support for the post-communist SLD.

Chapter 6 takes a more theoretical approach to these results. It asks how voters decide between parties which express different policy preferences. Starting with the conclusions reached in Chapter 5, I argue that a proper interpretation of voters' decisionmaking processes rests not just on their selection of a pro-reform or anti-reform party. Rather, our understanding of voting in post-communist countries is enhanced if we consider parties not simply as pro-reform or anti-reform. It is more instructive, and more illustrative of the actual political situation, to assume that parties choose their policy actions according to consideration of the varying weight they give to pragmatic and ideological preferences.

Voters also display this behavior. Not only do they rationally prefer more pragmatic parties to ideologically committed ones, but the choice between pragmatic parties is influenced by which party shares the same ideological orientation, values, and/or understanding of the economic "state of nature" as the voter.

Through this framework, we are able to understand the 1993 general election, in terms of rational choice theory. The argument presented in Chapter 6 has greater explanatory power than those arguments which depend upon the electorate, as an aggregate whole, rejecting or accepting economic reform on the basis of its generalized impact on society as a whole. Voting in transition countries is the result of more complex decisionmaking than simply the rejection or acceptance of radical

reform programs. Moreover, individuals' own experience of the costs and benefits of reform -- both on themselves and on their local economy -- can be reflected in the variation of voting preferences across social groups and across regions. The need for diversified voting choices is reinforced by the empirical evidence presented in Chapters 3 and 4.

Chapter 2

Economic and Political Indicators: 1988-1995

2.1 INTRODUCTION

This chapter will trace the most important economic and political events from 1988 through November 1995, when the second presidential election was held. The interdependencies of economic crisis and reform, policy and political response are intricate and complex. This chapter aims to draw out the most indicative threads in the Polish political economy. There is a growing body of accounts and analyses of the transition in Poland,¹ and this chapter does not aim to recount every detail of transition. The first concern of this chapter is to address how the transition was planned versus how events unfolded in reality. Second, how has transition affected different social groups? Third, where have the strongest political reactions emerged during the course of reform? In particular, can we identify the development of the factors which led Polish voters to elect a post-communist government in the September 1993 election? All three of these questions recur through the thesis and form its central themes.

The sequence of political transition can be placed into four phases: *pre-reform crisis*, *extraordinary politics*, *post-reform crisis*, and *recovery*. Although the sections are distinguished by the political atmosphere, a substantial part of the causation is economic. Starting with an introductory section on the growing disequilibrium in the second half of the 1980s, this chapter will outline some of the key events and outcomes to characterize these phases. Special attention will be paid to the variation in the experience of transition for the socioeconomic groups, which will be the primary unit of analysis in the three following chapters. These groups are: state sector workers, farmers, combined working-farming households, pensioners, the self-employed, and the unemployed and those dependent on social benefits or other non-wage, non-pension income sources.

Since narrating the entire political economy for the years 1988-1995 would take volumes, by choice I have not described financial, monetary, and international policies except as directly related to either describing the macroeconomic situation or their impact on the social groups. The chapter follows a roughly chronological sequence, with certain

¹ See, for example, Johnson and Kowalska (1994), Slay (1994).

thematic clusters but generally with political and economic events interweaving. The aim of this chapter is to provide a contextual background for the more analytical chapters which follow.

2.2 1980-1989: PRE-REFORM CRISIS

The economy of late communist Poland was characterized by growing macroeconomic disequilibrium, marked by shortages, increasing wages but falling living standards, and rising inflationary pressures. The squandered foreign borrowing of the 1970s, failure of the inconsistently implemented WOG (*wielka organizacja gospodarcza* - large economic organization) plan, and public resistance to the announced price increases of July 1980 were among the chief causes behind the mounting social crisis. Government policy seemed only to aggravate supply shortages and unsatisfied consumer demand. The 1980-81 reform ended with the imposition of martial law in December 1981. Yet, as Slay (1994) points out, the brief surge in public debate provided a potential pro-reform actor in the form of Solidarity and opened up public debate — and focused economists' thoughts — on drafting the radical reform programs which finally seemed within the realm of possibility.

Despite the December 1981 martial law crackdown, the Jaruzelski government moved ahead with a number of liberalizing reforms designed during the 16 month long Solidarity period. The core of this program initiative related to reform of state-owned enterprises. The “first stage” of a new reform program was already presented in 1981. This program is best known as the “Three S’s” reform, after its initiative to grant **self-management** of enterprises through workers' councils, and **self-financing** and **self-governance** to enterprises themselves. This was mostly an administrative reform to provide enterprises with incentives to operate on the basis of financial profitability. The most important legacy of this reform was the establishment of workers' councils with real power over managerial decisions. Even ten years later, workers' councils still exercised great influence over the course of ownership transformation of SOEs, and they continue to retain legal powers in the nearly 3,000 state enterprises which have been neither commercialized nor privatized. The 1981 reform program also raised some consumer prices, and loosened tax and legal regulations for small private firms (Slay 1994, p. 58).

The reform initiative was extended to agriculture, and at this time the government guaranteed parity between private farmers' income and the average industrial wage. This policy required massive producer price subsidization to boost farmers' incomes. Food prices were raised by 160 percent during the first two months of 1982 (Slay 1994, p. 56), but as they were still administratively set, they still did not cover the total cost of production. Given continuing inflationary pressures, these prices were soon even further below market-clearing levels, requiring even higher levels of subsidization. The price regime was also altered whereby essential consumer goods were still controlled, but certain other goods were given ceilings.

After the 1982 price hike, which led to 100 percent inflation for the year, annual consumer price inflation remained in the 15-25 percent range through to 1987. Real wages were severely affected by the 1982 price adjustment, and most of the decade was spent recouping the loss in GDP suffered in the 1980-81 crisis (Kolodko 1989). The budget stayed in persistent deficit through the 1980s, and its monetization added to inflationary pressures. The balance of trade remained in the black over the decade, but the convertible currency debt swelled from \$25 billion to \$39 billion (Schaffer 1992). The 1982 reforms did not address the fundamental disequilibria in the economy. As the government's legitimacy was defined almost purely by increases in personal consumption - a residue of Gierek's 1970s drive to increase consumerism -- popular demonstrations against falling living standards placed an enormous strain on an increasingly delegitimized government.

Much of the debate on "real socialism" questioned whether inflation actually existed in the centrally planned economy. One school of thought held that reforms, especially in enterprise behavior, created inflationary pressures but that these were suppressed through administrative price controls. The opposing view was that the authorities manipulated economic mechanisms such as foreign exchange controls and taxation to prevent money from spilling over from the passive to the active sphere.² In retrospect, the more likely story is that as imbalances worsened over the course of the decade, it became harder to cover the overhang through tax and exchange manipulations. The latter part of the decade experienced a combination of suppressed inflation (in the

² Portes and Winter (1980).

consumer sphere, from price controls for staple goods) and hidden inflation (price rises disguised as improvements in product quality or variety).

By 1988, the deterioration of Poland's economic performance became ever more evident and reformers within the Party gained dominance over the conservative faction. Gorbachev was on the ascendancy, with *perestroika* giving further credence to economic reform. The changes which had been started in the early 1980s were to be accelerated through the implementation of the "Second Stage" of market-oriented reforms. The government sought to establish a mandate for an austerity program through a vaguely worded referendum. The popular conception, which turned out to be correct, was that reform would mean more price rises. Despite public rejection of the proposal³ in October 1987, the Party leadership pressed ahead with a version of the reform program which moderated projected consumer price rises for 1988 from 57 percent to 40 percent, in an attempt to make the reforms more popularly palatable. About 40 percent of prices were still under central administration at this time. Food prices were expected to rise by 110 percent, and rent, energy, and fuel were to double in price. Even before the plan was implemented, however, the government gave signs that it was backing away from the rigor needed to reverse the crisis, for example by promising partially compensatory wage rises. No wonder the government was cautious, as prices rises had triggered large scale social unrest four times previously in the years since the second world war.

The authorities never actually explained what exactly went wrong with the first stage, except to say that it had not proceeded fast enough. The Second Stage was meant to speed up the reforms by achieving equilibrium in the consumer goods market, expanding the independence of state-owned enterprises, realizing a free flow of both material and financial resources between enterprises, and through "further restructuring" of the institutional system of the "center" (Myant 1989, p. 13). Yet the first obvious consequence of the Second Stage was a large increase in prices for most consumer goods and services. The CPI rose 60 percent, with food prices up 49 percent and services up 63.5 percent⁴. The second consequence was the public response through a swell of labor unrest in April and May 1988.

³ Despite receiving the majority of votes cast, due to voter absenteeism the required absolute majority of all eligible voters was not attained.

⁴ GUS (1989), *Rocznik Statystyczny*, Table 11(202), p. 122)

Early in the year, the Solidarity leadership had adopted a conciliatory tone, but their calls for negotiations were rebuffed by the government. By the springtime, a younger and more radical element within its industrial ranks was agitating for greater action. This group identified itself separately from the older "senators" whom they felt had lost touch with their needs (Zubek 1991, p. 359). After the inconclusive end of the Walesa-led May strike at the Lenin shipyards, wildcat strikes erupted during late spring and summer. Protests peaked in the strikes of July and August.

The government's economic policies fomented a strong, politically-oriented, and pro-Solidarity public reaction. The reforms were profoundly lacking in credibility and legitimacy, and much-needed aid from foreign sources was not forthcoming. At this juncture during the summer of 1988 that it was agreed to hold the Roundtable talks. No longer able to control the situation's outcome, the Party realized that it must negotiate with the opposition. The Party realized that this new radical element of Solidarity could coalesce into a more formidable force than that posed by the then-present union leadership.

Both sides undertook to streamline their organizations in preparation for the confrontation. Solidarity sought to create not only a representative leadership and to gain the support of its members, but also to eliminate its anti-negotiation and populist element (Zubek 1991, p. 360). Both sides compromised in their agreement to meet at the bargaining table. As the hard-line communists had to be overruled, Solidarity also prevailed over the stronger anti-communist element which opposed any form of accommodation. As in the model explicated by Przeworski (1991, p. 68-9), opposition moderates negotiated with party reformers, the political outcome of which was democracy with "guarantees" (of a continued leading role for the Communist party).

The Messner government resigned in August, but it was not until October that the Rakowski government was installed. Economic reforms were advanced and accelerated, and the government still believed that it could advance the privatization of the economy without relegating political power. The reforms, however, were still piecemeal and inconsistent. Public debate over the situation intensified. In November 1988, Walesa and OPZZ leader Miodowicz held a televised debate which, more than merely discussing the future of trade unions in Poland, erupted into a full-scale debate over the situation in the country as a whole.

By the end of 1988, Poland's economic crisis was so deep that it could not be resolved via further mutations of market socialism. Open unemployment was still minimal, although the official figures obscured hidden and over-employment. Inflationary pressures were mounting. Wages rose 82 percent in nominal terms and 14.4 percent in real terms in 1988⁵, yet a fiscal surplus of 78 billion zlotys, or 0.8 percent of government spending was achieved (GUS 1992; Schaffer 1992). The economy became dollarized at a rapid rate. Nominal zloty stocks of the population grew 64 percent from December to December, almost exactly at the rate of inflation, but cash holdings grew 93.1 percent over the same period. The spread between the official and parallel dollar exchange rate was 431 to 1979 zlotys to the dollar (Sachs 1993). Legal access to convertible currencies was strictly controlled in the official market. The demand at black market rates revealed the lack of confidence in the zloty within an inflation-prone system, as people converted zloty savings into hard currency. This trend was reinforced by the fact that real interest rates for savings were negative since the 1970s. This overvaluation made the essential capital and consumer good imports imported through official channels relatively less expensive. However, the effect of inconvertibility and centralized control of imports and exports is shown in Poland's trade surplus of 538 billion zloty. in 1988, with a roughly even balance of payments for the year⁶. Of course, these figures do not include the black market, which raises questions about how effective the exchange rate policy was in terms of control.

The PZPR regime was able to buy a temporary measure of social peace through real wage increases. Kolarska-Bobinska (1989) has theorized that the material aspirations unleashed in the 1970s persisted despite the economic crisis of the 1980s. Many social groups became disillusioned with the state's promises to supply adequate quantities of consumer goods and services. Hope for a brighter and more prosperous future, coupled with a rejection of the existing system, led to popular support for the institution of a market economy. Wage rises helped appease people in the short run, but eventually fed through into greater inflationary pressures and shortages. Therefore public pressure on the PZPR to relinquish power was not lessened.

⁵ GUS (1993), *Rocznik Statystyczny*, Table 6(310).

⁶ GUS (1993), *Biuletyn Statystyczny*, p. 22

The situation had so progressed that urban and rural Poles were able temporarily to set aside fundamentally conflicting economic interests and preferences in order to combat the common foe. During its years underground, the many factions of Solidarity had developed a few universal assertions and goals. These were: that the Party was unable to lead society out of its “chronic socio-economic crisis”, that the PZPR was responsible for all the shortcomings of Poland's postwar development, that Solidarity was committed to political pluralism and genuine democratic values, and that Solidarity advocated the transition to a market economy and private enterprise (Zubek 1991, p. 357). Opposition to the Party and support for democracy were the key unifying forces holding Solidarity together. Rural Solidarity unified with their urban counterparts in opposing the Party. However, there would be inevitably be conflict arising from the inherent tension between urban and rural economic interests. During these years of opposition, people had a common cause and shared interests. The sensation of the development of a civil society based on shared values and interests found an accepting public. One of the sources of disillusionment in post-communist Poland is often suggested to be regret for the loss of this unity and concord, even if political competition is necessarily follows systemic transformation of the economy and polity and is needed for a healthy democracy.

Political theory often asserts that a property-owning middle class is a prerequisite for the development and consolidation of a liberal democracy (Offe 1993). Small businesses and the nascent private sector developed through the 1980s, whether legally, semi-legally or illegally. In the autumn of 1988, a law which liberalized most economic activity was passed by the Sejm. Despite expectations, these new entrepreneurs did not play an especially prominent role in Solidarity's public activities. The private sector's apparent lack of support for the same movement which championed their interests may seem ungrateful. While small businesspeople and entrepreneurs were not all actively engaged in dissent, it can be argued that private sector growth in itself provided a strong pro-transition dynamic within society.⁷

The position of the “old” private sector was also specific to the socialist economy. Before 1989, most of the existing private sector was “licensed”, in other words it was

⁷ The private sector also allowed some Solidarity and other opposition activists to avoid political intimidation in the workplace had they remained in state employment.

based on official permission granted by the state and a lenient tax regime (underreporting was rife and unenforced; paying taxes on the full turnover would have made most activity unprofitable). The existence of the private sector depended on administrative controls, and thus entrepreneurs stood to lose by becoming involved in political activity. Furthermore, profitability of the private sector was also based on quasi-monopolist positions in the shortage economy. Also, the role of “*nomenklatura* privatization” meant that at least a proportion of entrepreneurs may have still relied on Party connections, and thus been hesitant to change sides too quickly in the uncertain political environment.

The Polish economy neared collapse in 1989. Partly as a result of the post-strike wave of wage increases, open and repressed inflation accelerated. Given the deepening foreign debt problem, inability to increase exports and faltering domestic supply, shortages became even worse. Over the first three months of the year, the political and economic situation grew more precarious. Growth slowed, and the Communist authorities continued to try to combat the crisis through limited economic reforms.

The law on liberalization of economic activity became operational on January 1, 1989. This formally legalized the already developing *de novo* private sector, which predominately operated in services and retail trade. The Rakowski government hoped that this last chance attempt to unleash the petty-entrepreneurial potential of the population would boost living standards without requiring any active input or investment by the government. The feeling that this law legitimized some “spontaneous privatization” by former *nomenklatura* touched off some resentment in the population, and especially amongst SOE workers. Demand for procedural privatization of state assets gained support, particularly among state enterprise employees who wanted to exercise the quite far ranging property rights acquired *de facto* during the 1980s. Workers felt that they were entitled to a share in this “social property”. Yet at this time, the reform program was only partial, as liberalization of private economic activity did not rectify the basic illogic of introducing market forces into a planned system, and political liberalization was not on the books.

The Round Table talks got under way in February. By April, representatives of the ruling coalition and of the centrist element of Solidarity were able to sign the Round Table Agreement. Its elements included the relegalization of Solidarity, faster

marketization of the economy, and provisions for semi-free elections within the context of constitutional reform. In addition to being able to contest 35 percent of seats in the Sejm, all 100 seats in the new Senate chamber were to be openly contested on a free ballot. The Round Table agreement allowed for more than Solidarity had come to hope to achieve, but soon events would outpace this evolutionary reform package.

The Solidarity economic platform in the run-up to the elections was broad, with general commitments to the free market, to entrepreneurialism and to decentralization. By now, the PZPR was advocating similar policies but its leadership had advanced to articulating specific reform measures to be implemented within the socialist framework. Solidarity tended only to specify its economic policy within the context of criticizing the possibility of reforming the existing system. Perhaps the most important aspect of this stage of Poland's political economy and the incipient move towards political and economic liberalization was that the Solidarity opposition **avoided direct debate on economic policy** with the PZPR, preferring to have its leading economists issue critiques of the Party's program and often contradictory policy pronouncements. As in 1980-1981, Solidarity negotiators concentrated their efforts during the Round Table talks on promoting social protection issues, such as indexation of wages. The opposition at this point did not yet feel responsible for devising a reform program to restore economic equilibrium. The Party was directly and absolutely blamed for all of the post-war economic miseries, from falling standards of living to the depreciating capital base.

2.3 1989-1991: EXTRAORDINARY POLITICS

On 4 June, elections were held with Solidarity winning a decisive tactical if not a (technically impossible) absolute victory. Of the 100 freely contested *Senat* seats, Solidarity candidates won 99. Solidarity had put up candidates in every constituency, and all ran under the trade union's banner and Walesa's image. The unified opposition to the communist government enabled Solidarity to create a solid front which was unable to persist after the collapse of the old regime.

Soon after the election, Solidarity began to position itself, if not for a direct challenge for power, then to assume the reins of government at the next, freely contested elections. In June, Jaruzelski offered to include Solidarity in a coalition government, but

Solidarity chose to remain in opposition. Jaruzelski subsequently made a public admission that the party was ready to relinquish power if they lost at the free parliamentary elections, scheduled for 1993. The difficulties presented in forming a PZPR-ZSL-SD⁸ government prompted Michnik as early as July to propose the “your president, our premier” formula for power sharing.

Until this time, reforms had taken place under the assumption that the fundamental political and economic order would remain under Party control and within the socialist system. Not only was there almost no public support for further attempts at reforming socialism, but even the *apararat* lost faith in the core economic doctrines of socialism. Gradually, they realized that marketization and socialism were incompatible. While the reform programs of the 1980s would fail, they set the stage for the radical systemic change to follow (Czekaj *et al.* 1991). The reformist branch of the PZPR had realized that bargaining would be the most pragmatic option if they were to avoid a more violent upheaval. In the long run, this refusal to resort to coercion allowed the former communists to reenter political life, and indeed to regain office within four years of the collapse of the old order.

The Wage Indexation Act was passed in the Sejm on 31 July. This law provided for the regular indexation of wages, thus hoping to avoid the competitive wage spiral which had plagued the preceding two years. The Act also provided the legal framework for the controversial *popiwiek* excess wage tax, in which pay increases which exceeded a given norm were to be taxed at punitively high rates.

On 1 August 1989, almost all administered food prices were freed. Although subsidies were reduced⁹ and most food prices were liberalized in August, the system was as yet still unable to undertake a radical reorientation of consumer and producer price controls, much less a restructuring of the trade and exchange systems (De Crombrughe and Lipton 1992). As a result, food prices increased 80.4 percent in August, 44.5 percent in September, and 65.1 percent in October. By end December 1989, the year-on-year inflation in food prices was 877.6 percent, compared to 639.6 percent for all consumer goods and services¹⁰. Higher prices did necessarily not mean greater supplies, however.

⁸ *Zjednoczone Stronnictwo Ludowe* (United Peasant Party) and *Stronnictwo Demokratyczne* (Democratic Party).

⁹ From the 16 percent of GDP level of most of the 1980s, subsidies were reduced to 12.5 percent by year's end.

¹⁰ GUS (1994), *Rocznik Statystyczny*, table 14(286).

Some farmers held their produce back from the market, waiting for even higher prices. Eventually, the situation deteriorated to the point where the international community had to send food aid in the later part of 1989.

In August 1989, Kiszczak was nominated premier in an increasingly beleaguered government. Cohesion within the PZPR and its élite disintegrated from the moment the election results became known. In the developing power vacuum, attempts at reforming socialism were incredible. Reform without a fundamental change in the system of economic relations was doomed to failure by virtue of its inherently contradictory nature. Two weeks after the election, ZSL and SD joined in talks to form a government with the opposition. With the support of their former fellow travelers withdrawn, the Kiszczak government had no choice but to resign. A week later, Mazowiecki was appointed premier of a Solidarity-led coalition government.

After being approved by the Sejm in September, the Mazowiecki government set out not to reform the existing system, but to radically change it to a fully market-oriented, Western-style government. Most pressing of the economic problems was inflation; after the food price liberalizations of August, prices soared towards hyperinflationary levels. Food prices rose by 80 percent in August, a rate even greater than even that which would be experienced in January 1990.

The Mazowiecki government's assault on the swelling budget deficit was first made in September by searching out sources of greater revenue. Administered prices of alcohol and fuels were raised an average of 120 percent. The budget deficit had reached 10 percent of GDP and had until then been financed by monetization (Sachs 1993, p. 40). The gap between the official and market exchange rates placed exports at a disadvantage, thus reducing much-needed hard currency inflows. Shortages fueled the demand for hard currency, and the rising price of foreign exchange on the black market made import-competing goods more expensive. On September 28, the zloty was devalued in relation to the US dollar by 24 percent, and by two percent in relation to the transferable rouble.

In October, the budget was passed for the fourth quarter, despite assumptions that the deficit would be raised, and the government presented the first draft of the economic reform program. The budget included decisive measures to reduce the deficit. Coal mining and food subsidies were cut, investment suspended, finance of the budgetary sector

was to be reduced, and treasury bonds were to be issued. In mid-month, banks were able to set interest rates according to their own discretion, with no upper limit.

Although retail food prices had been liberalized, the state still controlled agricultural input prices at relatively low levels. This improved the terms of trade for farmers, helping to create expectations of even greater profits under the market economy.

However, the state sector still controlled most of the monopoly procurement agencies and food processing industries. These were the most important buyers of farmers' produce, and purchasing prices in this sector did not keep up with retail prices. Farmers reacted angrily to these developments. On 15 November, in the poor north-east region of Suwalki, farmers staged a French-style road-blocking demonstration protesting against what they believed were excessively low procurement prices. Three days later, coal miners supported Mazowiecki's appeal for Saturday work to stockpile fuel as winter approached. These two incidents, only days apart, illustrate the divide between industrial and agricultural workers regarding their support of the government's economic policy.

November closed with the Sejm pressuring the government to present its agricultural policy in response to the intensification of farmer protests. The debate released severe criticisms of the Mazowiecki government's stance. During its party conference, the ZSL relaunched itself as the PSL, a "new" peasant party. The PSL would go on to create a niche for itself as the most sectorally-oriented party, advocating easy credits and preferential treatment for small farmers and peasants.

The cooperative sector was next for the Sejm's scrutiny. A government bill was tabled in December which would "eliminate the managing bodies of 'co-operative' groups in the food processing industry, trade, construction, and other sectors" (Olszewski *et al.* 1993). Because of the hierarchical administrative structure of the cooperative system, the managing bodies actually operated as monopolies, eliminating competition. Moreover, they were a stronghold of the nomenklatura. The legislation would eliminate these vertical links, making each cooperative an independent economic entity. Thus they would move from being *de jure* to *de facto* cooperatives, and in terms of ownership from the state to the private sector. The government proposal received predictable opposition from the PZPR and SLD.

The Balcerowicz Plan was publicly presented ahead of schedule, on 8 December, and was scheduled to begin on 1 January 1990. The official statement estimated that

industrial production would drop by five percent, production of goods and services by 2-3 percent real incomes would fall by one-fifth, and that inflation would reach 50 percent per month in the early part of the year before falling to single digit levels by the latter half of the year.

The same week saw a public display of the growing divide between the trade union and political wings of Solidarity regarding the organization's role in the new political system. The end of December witnessed a last push of economic legislation in preparation for the Big Bang. Stabilization-related measures were adopted. Legislation codifying protection of property by unifying criminal penalties in regards to state and private property had been passed the previous autumn. Provisions were made in the Law on Employment to deal with the problem of unemployment, before it actually occurred. Finally, the list of commodities and prices which were to continue under central administration were issued.

On December 26, the IMF agreed to a \$710 million agreement with Poland, conditional upon the progress of the Big Bang program. This agreement included provisions for the \$1 billion stabilization fund to support convertibility. The funds were to be lent over the course of 1990, \$300 million of which to be distributed early in the year.

The inflationary trends which had been rising over the course of two years were now nearing hyperinflation. Systemic factors precipitated a collapse of the fiscal system. Revenues fell, and the government failed to significantly reduce expenditures. A deficit of 6-7 percent of GDP developed, financed primarily by central bank credits and money printing, which further fueled spiraling inflation.

If the situation in September made radical reform an urgent matter, the economy in December made it an absolute necessity. Before discussing the "big bang", first let us review some of the legacies of 1989. A lasting economic and political impact has resulted from the increase in real wages in that year. The agreement on wage indexation made during the Round Table talks was scheduled to begin in August, when a jump in real wages was expected. In December, a last minute pay rise gave a 25 percent boost to real wages. Nominal wages in December 1989 were 81.9 percent higher than the previous December. Not only were the wage increases not indicative of rising productivity, but as they rose in relation to prices they aggravated consumer demand, driving it up to unsatisfiable levels. Higher real wages did not transfer automatically into better living

standards because the money was not convertible into consumer goods. Higher wages may have thus actually lowered living standards. Even if these high wages were not sustainable and reflected neither productivity nor consumption possibilities, each boost in nominal income meant a sharper adjustment would be needed to clear the stock overhang in personal incomes and post-reform real wages would be that much lower than pre-reform wages.

Up until the start of reform, wage levels were extremely egalitarian across skill levels and especially across blue and white collar occupations. The very different situation in advanced market economies suggested that an early effect of transition on the labor market would be higher wage disparities. Wages in the budget and administrative sectors had been linked to industrial wages; it was well known that efficiency would be a decoupling of wage indices. When the new private sector began to bid for skilled labor in numbers, wage differentials would emerge by sector as well as by education and job description. Economic transition would inevitably lead to greater income inequity, but it was unknown how great it would be and how acceptable this would be to the public. The pure liberal interpretation, here provided by Sachs (1993), considers the initial equitable income distribution to have provided the perfect environment for the introduction of a market economy that is, one of "equality of opportunity". In a society which for forty years had drilled into people the preferability of an equitable distribution of income, it was not clear whether people at the wrong end of the labor market would be as understanding of rapid shifts in relative wages.

The macroeconomic disequilibrium made itself felt not just in domestic consumer markets, but also in foreign economic dealings. The greater the disjunction in the domestic market, the higher the spread between the market and official, overvalued exchange rate. In the last quarter of 1989, the dollar rate was 46 times the official rate. For the year on average, the spread was over 430 percent (Berg and Sachs 1992, p. 130). A series of devaluations over the last quarter of 1989 brought the official rate close to the parallel rate. During the last week of December 1989, the official rate was 5,560 zł/\$ and the average auction rate 6,000 zł/\$; the parallel rates were 8,000 zł/\$ and 9,000 zł/\$ (Wellisz *et al.* 1993). One of the main challenges for Balcerowicz was to stabilize this rate at a realistic level and encourage people to move back into domestic currency. The crucial element of this aspect of the stabilization policy was the \$1 billion fund backed by the

IMF. The existence of these funds, which guaranteed that the central bank would convert zloty into dollars at the fixed exchange rate, was sufficient to generate confidence in the rate. The fund was never needed.

Another legacy of communist economy policy was the crippling level of foreign debt. Total foreign debt stood at \$40 billion when the new Solidarity government was forced to declare a moratorium on payments pending negotiations with the Paris and London Clubs. The National Bank of Poland's interest rate at the end of 1989 stood at 8.1 percent per month, and net foreign reserves were \$2.5 billion. One component of liberalization and stabilization policies is the introduction of positive interest rates, which increases the debt burden. Another obstacle to any economic reform program is how to handle the debt problem. Repayment can drain essential resources from other uses such as social safety net programs or paying wages for state employees.

A further burden came from the unproductive use of these borrowed resources. Much of these borrowings had been used not just for imports of consumer goods, but also for imports of machine and investment goods. Far too often, these goods were not technologically advanced, productivity increasing capital goods, but rather outdated, energy intensive and labor-intensive technologies. As in the rest of the Soviet bloc, the economy was intensely industrialized, with nearly all industry under state control and in very large enterprises.

Agricultural production was also extraordinarily inefficient, but its inefficiency came not because of overagglomeration but from fragmentation into thousands of small, private farms. The Communist regime never managed to collectivize Polish agriculture. The eventual acceptance of private farming, and the political integration of the ZSL, left post-communist Poland with a sector of politically muscular private farmers with a clear sense of sectoral interest.

Under socialism, the "non-productive" service sector and consumer goods industries were neglected in favor of heavy industrialization. Most of the pre-transition private activity in Poland came under these sectors. The private sector had been growing substantially from the early 1980s, and at the end of 1989 accounted for 29.6 percent of employment. In comparison, 28.6 percent of jobs were in state-sector industry, and 26.4 percent in agriculture. Production in the private sector was still relatively small, while state industry produced 48 percent of NMP. Once unleashed by the Law on Economic

Activity, even in a year of extreme change and uncertainty, the number of private businesses grew by 50 percent in 1989 to 274,000. Total employment in the non-agricultural private sector rose by a quarter to 300,000. The private sector, and here we focus on the sector of small businesses and self-employment, has been the engine of economic change in Poland. Entrepreneurs early into the fray were often able to exploit market failures and got rich quickly. While irrational price discrepancies would not last forever, the service and retail sector would provide countless business opportunities requiring little start-up capital. For those prepared to take the risk, self-employment provided one of the best routes to improved living standards in the post-communist economy.

As implied earlier in the discussion, the success of the “big bang” program would lie not just in the country’s deep economic crisis, but also in the shared conviction of society that the existing system of half-reformed socialism was clearly unsustainable. Although many were still somewhat ambivalent to various aspects of the transition program, such as privatization of large state enterprises, it was widely acknowledged that decisive action must be taken to stabilize and liberalize the economy. As the crisis deepened, public opinion supporting a capitalist type of economic system grew, if only as a rejection of the poverty and misery of “real socialism”.

The critical condition of the economy and of society persuaded policy makers to adopt the shock therapy of the Balcerowicz Plan for three main reasons. First, it allowed for radical changes to be pushed through quickly during a window of opportunity of unknown duration. Second, liberalization allowed for the withdrawal of the government from economic administration. Third, it created a clean conceptual break with the past.

The goal of the Balcerowicz plan was the creation of a functioning market economy, its two immediate components being liberalization and stabilization. The stabilization program was centered around the nominal anchors of the total sum of credit, the exchange rate and wage rates. To this end, these steps were taken during the first year:

- Subsidies were reduced: from 15 percent to 6 percent of GDP in 1990.
- Positive interest rates were introduced.

- The zloty was made internally convertible, and the exchange rate was to remain fixed.
- Prices were liberalized (90 percent by year's end).
- Domestic and international trade was liberalized.
- Contractionary fiscal and monetary policies were adopted to combat inflation.
- A wages policy was adopted via an excess wage tax.

As prices were liberalized, coordinated monetary, fiscal, and incomes policies were put in place to control the money supply. As part of the stabilization package, the Balcerowicz plan aimed to reduce the budget deficit from 7.5 percent of GDP to 1 percent. This correction would be of the magnitude of 10 percent of GDP (De Crombrugghe and Lipton 1992). Savings in expenditures were to be made through ending almost all categories of retail food and agricultural subsidies and a sharp reduction in price supports for coal and energy. At the same time, provisions were made for expanded social welfare spending and a new system of unemployment benefits, and money was also allocated for debt payment¹¹. Obligatory social insurance payments were increased from 38 percent to 43 percent, and were made payable by companies on the basis of payroll taxes. Total budget savings were to be in the order of 3 percent of GDP, and it was hoped that more vigilant tax collection and closure of loopholes would lead to a revenue increase equivalent to 4 percent of GDP. Any deficits were to be covered by issuance of treasury bonds and not through borrowing from the central bank. Credit policy was tightened, and rates were set on a monthly basis. The discount rate was raised from 13 percent to 36 percent.

With the Big Bang of 1 January, the official rate for commercial transactions was fixed at 9,500 zlotys to the dollar. The zloty became internally convertible and Poles were allowed to freely buy and sell foreign currencies at a market-determined rate through the parallel market. The private market exchange rate was lower than the official rate for the first two months of 1990, signaling a greater demand for zlotys. The zloty was intentionally undervalued due to the expectation that Polish prices would rise faster than international competitors' prices, at least over the initial period. Foreign-denominated

¹¹ One of the first acts of the Solidarity government was to declare a moratorium on debt payments pending Paris and London Club agreements.

savings accounts were permitted. Money stocks of households tripled during 1990, from 49.6 to 135.6 billion zlotys.

Monetary policy was based on high rediscount rates, high obligatory minimum reserve ratios, and rationed credit. Interest rates, which were set monthly, in January were 432 percent annually, 240 percent in February and 120 percent in March, above the rate of inflation. Nominal M1 grew 39.2 percent in January and 109.3 percent over the first quarter, which was 22.7 points below the inflation rate (Czarny and Czarny 1992, p. 14). Credit expanded over the first half of the year, but still remained considerably below the December 1989 level in real terms.

In regards to prices, the number of remaining administered prices in the economy was slashed to only ten percent¹². Consumer prices rose 79.6 percent in January, 23.8 percent in February and 4.3 percent in March. Prices for the rest of the year remained below a monthly rate of 10 percent. Along with the prices which were to be set by the market, administered prices were also hiked up on the first of the month. The highest price rises in the economy were in energy and public transportation. Gasoline, postage, and urban transport fares all doubled in price. Household prices for coal rose by 600 percent, for electricity by 300 percent, and for gas by 400 percent. Centrally administered housing prices were not automatically adjusted, but put off until a later date. Rents thus remained relatively low, while most other prices were planned to soon reach world levels.

For instance, investment goods for agriculture rose dramatically; the price of a basic tractor rose 105 percent instantaneously¹³.

Wage rises were to continue to be restrained according to indexation and a excess wage tax. Initially, the *popiwek* was to be applied to both state and private sector firms. In addition to curbing inflationary expectations, the wages policy was designed to provide a means of preventing excess wage rises in state-owned enterprises experiencing weak corporate governance. This was targeted not only to control the cost of living index, but also to control industrial production prices (Orlowski 1993). With the Big Bang, the indexation coefficient was lowered from 80 percent as December 1989 to 30 percent in January. In February, the coefficient was reduced to 20 percent, where it remained until

¹² Price controls were retained for coal, electricity, centralized heating and hot water, municipally administrated housing rents, public transport, certain medicines, spirit alcohol and the lowest priced milk (Czarny and Czarny 1992, p. 8).

¹³ Dow Jones, 2 January 1990

May. Wages in the first quarter stayed below the wage norm, with a corresponding accumulation of credits by the enterprises (Coricelli and Revenga 1992).

At the close of January, the PZPR held its last Extraordinary Congress. It disbanded, but split and regrouped as the Social Democracy of the Polish Republic (SdRP). This would become the main grouping within what was to become the SLD, the Parliamentary Club of the Democratic Left. This was a very significant political event in a much deeper sense than originally anticipated. Zubek (1995) has written a fascinating account of the rise of the post-Communists. The PZPR dissolved, but because the semi-free Sejm remained sitting until the 1991 parliamentary elections.

But, this is not to say that post-communist deputies actively opposed the reform program. During the more than two years between the appointment of the Mazowiecki government and the 1991 elections, 65 percent of sitting parliamentarians in the lower house had been elected through Party-approved lists. In the “contractual” Sejm, former Communist deputies readily voted for government proposals and laws. Rather than forming an active critique of the reform program, deputies acted rather carefully, under the threat that the parliament could be dissolved at any moment. The window of opportunity which existed for government action in pushing through reforms happened because of slightly more complex causation than a simple political honeymoon. The 1989-1991 parliament did exist during a period of “extraordinary politics”, to use Balcerowicz’s term, but this was not because the government was buoyed by waves of public adulation. The media was quite critical at all stages, and the public were under few illusions about the state of the economy, although Mazowiecki did receive high approval ratings for most of 1989-1990. Instead, the crucial factor was the readiness of former communist deputies to cooperate with the government — a situation which most politicians would definitely define as “extraordinary”.

While the farming sector protested the effects of the reform program (see section 3.6, below), the new private sector was on the rise. Changes to the law on real estate in March provided the legal basis for the “small privatization” of retail shops and small businesses. Services and retail have proven to be the greatest source of impetus in the privatization of the Polish economy (Rostowski 1993b). The Privatization Ministry estimated that 80 percent of Poland’s state-owned shops and service outlets were privatized in 1990 (Frydman, Rapaczynski and Earle 1993, p. 202). Sales were through

public auction, and the majority went to current employees. The creation of more than 100,000 small and medium sized enterprises was certainly a success. Small private business entrepreneurs received a further boost in May, with a one year tax relief for new ventures. However, the situation was different for the "old" private sector, which lost many of its artificial advantages through market liberalization.

For the first four months of 1990, the provisions of the *popiwek* wage tax only permitted wages to rise at proportions of 10 percent and 30 percent of the true rate of inflation. The high wage legacy meant that it was believed that successful stabilization required these heterodox measures in the first months of reform. In May, the wage indexation coefficient was raised to 0.60, where it remained until July. Wages rises remained below the taxable norm for May and June, but the gap was closing. Public opposition to the wage tax was stiffening. A hunger strike by 11 railway workers over demands for a wage raise and for abolition of the *popiwek* initially brought no government concessions.

By the end of May, Balcerowicz had retreated slightly from his hard-line approach, publicly stating that a less restrictive wage and monetary policy would be pursued but without abandoning the course of economic reform. Part of this relaxation was no doubt due to the fact that local elections were held in May. Turnout was low at only 42.3 percent. By this time, the unified front of Solidarity was dividing along the lines of the Mazowiecki-Walesa conflict. The premier and ROAD maintained a tough liberal stance, but Walesa and the Center Alliance took on an increasingly populist position, while calling for "acceleration" of political reforms and the privatization of state-owned enterprises (SOEs).

A convergence of economic and political factors in mid-1990 caused government to shift policy towards expansionary measures, but while strictly maintaining the fixed exchange rate. While it was expected that the budget would be in deficit for the first half of 1990, unforeseen revenues from the profit tax and from the lack of inflation accounting more than made up for falls in turnover tax revenues. Together with a decrease in budgetary expenditures, particularly from not granting scheduled pay rises in the budgetary sphere, a budget surplus developed within the first quarter, and expanded over the second.

On the other side, rising unemployment, more frequent and more vocal industrial action, and the electioneering of a presidential campaign which began not long after the local elections all contributed to the pressures for a more expansionary change in direction. The unity which enabled Solidarity to prevail in the June 1989 elections had dissipated. Contradictions between the trade union origins of Solidarity and the government's liberal economic policies were the most visible manifestations of the inconsistencies in maintaining post-communist Solidarity as a unified political movement. Moreover, public support for the Balcerowicz Plan steadily declined over the course of 1990, even after the policy relaxation in mid-year. From an approval rating of 45 percent - with 10 percent against - in October 1989, approval one year later was only 20 percent, 40 percent against¹⁴.

As Poland outperformed its IMF criteria, including running a budget surplus, it appeared that the economy could be expanded within these boundaries. One aspect of the relaxation was a loosening of credit policy. Another element of this relaxation were changes to the wage policy. The coefficient was raised to 1.0 for July, and different tax rates were diversified, lowered, and altogether made more complicated. Wages exceeded the wage norm for the first time that year, but due to the cumulated credit from the first half, enterprises were not liable to pay the excess wage tax. This sparked renewed inflation and a return to fiscal deficit (Gomulka 1993).

Unemployment increased over the first half of the year, reaching 3.8 percent by July. The initial policy on unemployment benefits, as covered in the 1989 law, provided open-ended coverage at high replacement rates. In July, benefits were restricted to those who had worked for 180 days in the preceding twelve months. In October, an act was passed which restricted eligibility further, including exempting those where the unemployed person or their spouse owned one hectare or more of land. The delicate balance between comprehensive coverage and circumvention of moral hazard was apparently tipped towards the latter (Chilosi 1993).

In the run-up to the presidential elections, industrial action reflected the urban sector's dissatisfaction with the form and costs of the reform program. On 1 November 1990, 66 of 70 coal mines went on strike to protest the perceived unfairness of the wage system. For the rest of the month, miners continued to participate in "warning strikes"

¹⁴ CBOS (1991), Report No. *BS457*, November, quoted in Gomulka (1994).

and demonstrate in front of the Sejm. The purpose was to demand that the government reinstitute subsidies, cuts in which threatened the mining sector with bankruptcy. The government, on the other hand, stated that mines should be converted into profitability¹⁵. Gdansk port workers also struck, to protest against the *popiwek*. On the 13th, urban transport workers participated in a two-minute delay to join the wage tax protest.

Presidential elections were held on 25 November, and the Center Alliance's candidate Walesa finished at the top of the first round with 38 percent of the vote. Mazowiecki suffered a crushing defeat with 20 percent, finishing third behind the mystery populist candidate Tyminski who received 23 percent. Peasants were the only group to support Bartoszcze in numbers, giving him 33.6 percent of their votes. Educated workers and students largely backed Mazowiecki, while workers and those with less education gave the greatest number of their votes to Walesa¹⁶. The Mazowiecki government handed in its resignation the next day, but agreed to stay in office until the Sejm could accept their resignation. Before the government left office, the Sejm passed the economic policy and draft budget for 1991 and asked the government to submit a review of its activity before leaving office.

In the aftermath of the Mazowiecki defeat, ROAD and other liberal forces joined together to form UD. They supported Walesa in the second round of presidential elections in December as a tactical maneuver to avoid a victory by Tyminski. Walesa was duly elected on 9 December with 74 percent of the vote. As the first year of reforms drew to a close, the government's resignation was accepted, Walesa was sworn in, and Jan Krzysztof Bielecki from the liberal KLD party formed a new government. Although the parliament still consisted of representatives selected in the semi-free elections, and thus with only 35 percent of the Sejm controlled by Solidarity-related deputies, Poland's government and presidency were both in the hands of the former opposition. Responsibility for economic developments now lay squarely on their shoulders.

On the basis of macroeconomic criteria, the radical Balcerowicz program was a success. After an initial worsening, supply constraints disappeared, rendering many of the black market's traditional functions redundant. The extremely high inflation rates eased. The basic elements of a market economy had been reintroduced into Poland, and there

¹⁵ Dow Jones, 23 November 1990.

¹⁶ OBOP (1990), Report No. 54/596, November.

could be no return to the old system. Poland's links to the international economy expanded. By the end of 1990, most Polish prices for tradables had reached world levels.

It was realized that the Balcerowicz plan would lead to some degree of recession, but it was extremely difficult to estimate with any confidence beforehand the extent of slowed economic activity. Prices rose considerably more than originally thought (249 percent versus the expected 94 percent for the year), and after the initial surge inflation was neither reduced as quickly nor to as low a level as expected. From a peak rate of 79.6 percent for retail prices in January, inflation slowed to 23.8 percent in February, and from after April to a monthly rate of under six percent. Sachs (1993), basing his figures on IMF estimates, presents lower inflation figures: 77.3 percent for January and 15.8 for February. The exchange rate held steady through the year at 9,500 zlotys to the dollar, and this was considered a true accomplishment. However, the devaluation had been so deep that effects were not eradicated by inflation until close to the end of 1990.

Industrial production collapsed in 1990 by nearly a quarter. This was even including an increase in the private sector's share of GDP, from 19 percent to 25 percent. This drop has been attributed to both internal (monopolies in industry) and external (CMEA trade fall) factors.

Wages in the first half of 1990 rose at a rate steadily below that allowed under the *popiwek* ceiling. In real terms, wages tumbled in January and then stabilized over the next few months at levels from 35 to 40 percent below those of the same time the previous year. For the year as a whole, wages were 27 percent below their 1989 level. This restraint is attributed to uncertainty under the rapidly changing market conditions, possibly with the implicit or actual agreement of the labor force. Lack of enterprise liquidity may be the simple explanation for the unrealized wage rises. The actual impact of the wage policy on the behavior of pay rises is debatable, but nevertheless wage increases remained below the ceiling for the first half of the year, and over it for the second half. This adjustment brought wages into a truer relation with productivity as well as with freed prices which reflected value and scarcity (De Crombrugghe and Lipton 1992).

The expansionary government policy of the second half of the year provided for some wage stimulus, as the excess wage tax rates were slightly reduced. Wages proceeded to exceed the norm, but because unused credits from earlier in the year were accumulated, wage increases were granted without enterprises being liable to pay the tax

until all reserve credits were exhausted in November and December 1990. The *popiwek* went from optimally generating no revenue to being an important source of tax revenues. The rise in wages occurred despite growing unemployment and without any related gains in productivity. Unemployment at year's end was 6.1 percent of the workforce. Real wages declined sharply in January. For the rest of the year, wage inflation was higher than price inflation. Due to the magnitude of the January fall, it was not until the second half of the year that excess wage penalties caught up with the *popiwek* ceiling. The fall in real wages in January was so large that despite exceeding the wage norms, real wages for the year were still down 30 percent.

The combination of liberalized prices and wage restraint meant that prices were bound to rise faster than nominal wages. Many saw their accumulated zlotys wiped out by high inflation and negative interest rates for deposits, and foreign currency savings drastically lost real value due to the devaluation. Hard budget constraints for SOEs meant that job security became a thing of the past. This is the core of the trade-off of transition, from the old system in which jobs were poorly paid but secure to the new reality of rising unemployment and redundancies.

Growth in the private sector was small as a proportion of GDP (from 29 percent to 31 percent), but the numbers employed in the sector rose 30 percent and the number of registered private limited companies nearly tripled (Rostowski 1993). This growth was predominantly in commerce; the number of shops and retail outlets in Poland increased exponentially. The expansion of the private sector into commerce and services highlights the enormous gap in the consumer market neglected for years in favor of intensive industrialization. This illustrates how true reform quickly eliminated the shortages which had plagued the planned economy for the last decade.

In view of 1990's decrease in real wages, questions have been raised as to the impact of economic reform on living standards over these early months. Real wages in the state sector, which accounted for 87 percent of non-agricultural employment, fell by 31 percent as an annual average from 1989. Government spending rose for safety net provisions. An unemployment scheme and retraining and relocation programs were undertaken by an extrabudgetary Labor Fund. Unemployment benefits were initially characterized by high replacement rates (70 percent of the last wage for the first three months), no time limits on benefits, and broad eligibility criteria (De Crombrughe and



Lipton 1992; also see Chapter 4). While the government's stated aim was to protect pensions and social incomes, average pensions fell 11 percent in real terms from 1989 to 1990 (Author's calculations from GUS, *Rocznik Statystyczny 1991*). While subsidies were cut, the government acted to provide a degree of compensation to the public. Expenditures on income support, health (primarily for medicine costs), and social insurance benefits, most importantly rent support, all increased.

GUS figures place the real fall in private consumption at 15.3 percent from 1989 to 1990¹⁷. While food consumption was measured to have fallen 3.9 percent, non-food goods fell by 31.6 percent. Much space has been devoted to the impact of the economic reform program; Berg and Sachs (1992) estimated the fall in consumption as being approximately 4 percent. Roberts (1993) estimated the welfare gains from the end of queuing and shortages to be significantly positive. However, these gains are not equally distributed, and tend to be less for lower income groups for whom queuing had a lower opportunity cost.

The liberalization process not only introduced competition into the Polish market through imports, but also widened the range and variety of consumer goods on the market. In the first two months of 1990, quantitative import quotas were lifted, and imports surged into the Polish market. As domestic prices rose in relation to world prices, imports became more competitive. Poland was running a trade deficit in 1990, but the presence of export earnings increased international pressure to service their debt. The suspension of tariffs on producer goods and raw materials was in part calculated to reduce this surplus. The trade balance, however, remained positive until January 1991 when it took a sharp dive into deficit. The progress of the stabilization and liberalization program may be examined in light of the three nominal anchors. The exchange rate was successfully maintained, and real appreciation did not set in until late in the year. The wage indexation coefficient was applied with varying rigor, and the coefficient fluctuated from 0.2 to 1.0 before settling at 0.6 in the third quarter. Its effectiveness was undermined by the cumulative credit system. The magnitude of the fall in real incomes in the first two months of the year and their failure to reach their ceilings meant that enterprises were able to pay wages over the norm without incurring the excess wage tax until November. Credit was strictly rationed in the first half of the year, in contrast to the monetization of

¹⁷ GUS (1992), *Rocznik Statystyczny*, Table 14(84).

the budget deficit in 1989. Rates were also strongly positive, which would assist in replenishing foreign reserves and build confidence in the zloty (Schaffer 1992).

As we shall discuss more in Chapter 5, the year began with considerable public support for the radical reform program and a consolidation of political power for post-Solidarity forces. By the end of the year, however, the public mood was becoming more critical. The lines of economic and political division which characterize contemporary Poland emerged during these months. The political scene splintered into a highly fractionalized system with a large number of small, personality-led parties on the anti-communist right. The pragmatic, young branch of the PZPR made the successful transition to a social democratic party, and peasant ZSL reformed into the arguably even stronger PSL. While most of these two parties remained unified, the division between Solidarity the trade union and Solidarity the radical reform party was unsustainable in conditions of normal politics. The split which occurred this year remains to today, with the various parties now united under *Akcja Wyborcza "Solidarnosc"* on one side, and *Unia Wolnosci* on the other.

Not only was the current shape of the party system formed during the first year of transition, but the issues and themes which still shape public debate also emerged. Unemployment began its steady upwards climb. While state sector employees chafed under the restrictions of the excess wage tax, farming households received a much more serious pinch between depressed domestic demand and a terms of trade shock. The post-honeymoon political economy is about the emergence of formal and informal alliances of interest groups. Workers first protested low wages, but then became much more concerned with the threat of unemployment. Farmers demanded low interest loans, price supports, and protection from cheaper imports. Pensioners, whose numbers were swollen by early retirements, protested against low living standards. More often than not, political action sought economic assistance for specific sectors. The new private sector kept a surprisingly low profile, as they would over the succeeding years. Despite the constant threat of political instability, the private sector continued to grow at astounding rates. Economic success appeared to be separate from the world of politics; economic troubles became intensively politicized.

If the story for 1990 is stabilization and liberalization, the story for 1991 is recession. While the 1990 program was approved and implemented in an environment of political cooperation in the Sejm and general public support, the second year was to face stronger and more cohesive opposition. Kolarska-Bobinska (1990) wrote about the “myth of the market economy”: people's expectations, based on little first-hand experience of a market, bred unfulfillable hopes and expectations. It was assumed that once Poland threw off real socialism, the economy would soon flourish. However, as the recession became deeper and longer than expected, people grew disenchanted and their patience gradually wore thin.

The Bielecki government, appointed in January, swung even further to the economic right, with a strong presence of KLD in the cabinet. Prices rose 12.7 percent in January in response to an increase in the administered prices of rents, public utilities, and public transport. One of the first public declarations of the new government was in support of the continuation of the wages policy for state-owned enterprises, but lifting of the scheme for the private sector. The logic was that the tax would motivate both workers and managers to privatize more rapidly. With this act, the Bielecki government proved no less able than Mazowiecki to incur the wrath of state sector workers. In January, postal workers joined the ranks of strikers with their own call for wage hikes and the end of the hated excess wage tax. Amongst the anti-*popiwek* forces was Walesa's advisory committee, which advocated its suspension. Because of the perverse pattern of excess wages which developed in 1990, the *popiwek* was altered for the new year. Many enterprises, including even ones which were unprofitable before taxes, accumulated sizable tax arrears. Payment of the *popiwek* tax threatened to put certain enterprises under, causing a panicked fear of mass lay-offs (Coricelli and Lane 1993).

While mass redundancies never materialized to the extent some feared (see Chapter 4), constraints on the viability of state enterprises began to pinch in 1991. The budget constraint was credibly hardened, credit was much scarcer and more expensive, and the transformational recession continued to deepen. Enterprises could no longer maintain high staffing levels, and began to shed excess labor. Although the private sector was growing quickly, it was still not creating enough jobs to offset unemployment. It was widely accepted that there would have to be a transitional phase of high unemployment as labor resources were reallocated to more efficient uses. However, it was unknown how

high unemployment would go, and how many would become reemployed. Unemployment in January stood at 6.5 percent, increasing to 7.1 percent by the end of March.

A public opinion poll conducted at the end of January gauged social approval of the Bielecki government. High proportions of responses were "no opinion", but the government received approval ratings from between 26 percent (from lower educated clerical workers) and 43 percent (from higher educated white collar workers). Farmers were split in opinion, and skilled and unskilled workers alike gave slightly higher approval (40 percent) than no opinion (35 percent), with 24 percent expressing disapproval¹⁸.

Clearly, approval ratings were no longer at the honeymoon level of early in Mazowiecki's tenure, but they were still far from registering complete disapprobation. During the first quarter of the year, the timing of the first fully free parliamentary elections was debated. Most parties supported spring elections, but Walesa decided that they would be in the autumn. By the spring, Poland had entered an extended electoral campaign.

In April, the Bielecki government scored a triumph in its negotiations for a 50 percent cut in its \$33 billion Paris Club debt. This relief was to be implemented in two stages, the second part to be dependent upon the 1994 budget law. The zloty/dollar rate was devalued 17 percent to 11,200 zl./\$ in May. The rationale given was that this would compensate for the rise of the dollar in relation to its trading partners. At the same time, the zloty was taken off the dollar peg and linked to a weighted basket of currencies.

Later in the same month, Solidarity mounted a vocal publicity campaign against the social and economic policies of the Bielecki government. Unemployment became the central issue which would dominate the next three elections. While workers' household incomes were no longer falling but were leveling off in real terms, this was at the lower, post-reform rate. Pensioners were benefiting from long-needed increases in benefits, but farming households continued to sustain falls in average household income.

In June, Privatization Minister Lewandowski introduced the plan for the mass privatization program, which would transfer 60 percent of shares in privatized firms to all participating adults and 10 percent to the privatized firm's employees. In the same month, unemployment reached 8.4 percent of the workforce and the monthly rate of inflation was

¹⁸ OBOP (1991), Report No. 5/611777

under one percent. The legislation for mass privatization was not approved by the parliament until the Suchocka government in 1993, and not implemented until 1995.

The decision to move ahead with privatization was responded to by a move in mid-year amongst the parliamentary opposition to coordinate political opposition to the UD/KLD influence over economic policy. Attempts were made that summer towards unifying the anti-UD factions, including Solidarity, Christian, and nationalist parties. This was the first clear sign of attempts to unify political forces which are both anti-communist and anti-liberal.

The resistance of unions and the more populist-oriented parties to changes on the limitation of social benefits was demonstrated in the autumn of 1991. The Ministry of Labor and Social Policy presented government with a bill on pensions in September. However, OPZZ (the trade union belonging to the SLD coalition) protested that the bill had been drawn up without consulting the trade unions. After several closed door sessions, the Sejm passed a version of the bill which was more favorable to pensioners. OPZZ decided to back Senate approval of the altered bill, citing the necessity of quickly relieving the serious economic situation of pensioners. Bielecki petitioned the Senate not to pass the bill as boosted expenditures would worsen the budget deficit. After intense bargaining, the Senate, and then the Sejm, approved the government-sponsored, more restrictive version of the bill. The national pensioners' organization threatened legal action, and a veterans' association entreated Walesa not to sign the bill. Coal miners came out in support of the pensioners, and against the Bielecki government. In two years miners' opinions had turned 180 degrees, from total support for economic reform to a decidedly anti-market stance.

On the international front, a new tariff schedule was introduced mid-year; average custom duties rose from 10 to 17 percent. The motivation was a desire to increase fiscal revenues as well as to protect import-competing Polish producers. Receiving special protection were the "vulnerable" strategic product areas of butter, meat, automobiles, and electronics (Wellisz et al. 1993). From a deficit of \$362 million in May, the trade balance was improved to a surplus of \$160 million by late September through a rise in exports and decline in imports, deteriorated by the real appreciation of the zloty and loss in terms of trade. Yet in September, the IMF suspended negotiations with the government on a new

loan agreement as the government exceeded the agreed targets for budget deficit, inflation, and other macroeconomic indicators.

By October, parliamentary elections were approaching and the economy was in stagnation. Unemployment was rising, at 10.8 percent and output still falling. In social policy, the Sejm altered the Employment Law in October to tighten the criteria of eligibility for unemployment benefits. Open ended support was terminated, with the effect that 21 percent of the jobless became deprived of benefits (Chilosi 1993). The CPI for October was 3.2 percent, with prices 62.7 percent higher than a year previously. The budget deficit posed a new fiscal crisis, amounting to 13 percent of revenues. The current account was in deficit, which worsened over the course of the year, from \$546 million in January to \$2.2 billion to October, and \$2.8 billion for 1991 as a whole. Farmers' procurement prices continued to trail behind market prices¹⁹. The fixed exchange rate was exchanged with a crawling peg, whereby the zloty was to be devalued incrementally and consistently over time in relation to the currency basket established in May. This was a response to the worsening trade balance and an attempt to restore international competitiveness of Polish exports.

As the tenure of the "contract parliament" drew to a close, Poland entered the real of "ordinary politics". 65 national lists and 64 local electoral lists were registered to participate in the election. In the campaign, economic issues played a very important function in defining differences between the numerous small and ill-identified parties. The peasant parties campaigned on greater aid and protection for farmers as well as a more interventionist role for government spending. Parties which supported the Bielecki government called for continuity in policy. Parties opposed to the Balcerowicz Plan, notably Olszewski, called for a "breakthrough". In particular, critics of reform emphasized how radical, liberal reform had exposed the weaknesses of state firms, decimated industrial production, diminished real wages, and introduced unemployment and higher levels of poverty. The financial scandals which emerged in 1990, including the Art-B and FOZZ affairs, were also popular rallying points in the call for slower and more controlled reform.

In this phase of Poland's transition, the generally cooperative behavior of communist-nominated deputies during the "contractual" parliament was an important

¹⁹ GUS (1992), *Rocznik Statystyczny*, Table 7(270), p. 165.

factor for facilitating the quick adoption of market-oriented legislation and policy initiatives. While the former communists acted as facilitators of reform, the former opposition became increasingly divided in the new, competitive environment. The “war at the top” which split Solidarity along the lines of Walesa and Mazowiecki supporters was the critical event in this process. It was during this phase that public optimism about quick welfare gains began to wane, and the costs of transition became more apparent. Yet while a period of renewed uncertainty loomed, the essential steps towards marketization and democratization had advanced far towards consolidation.

2.4 1991-1993: POST-REFORM CRISIS

The Bielecki government entered 1991 with the aim to reduce inflation to an annual rate of 36 percent, to have growth at 3 percent of GDP, and to bolster foreign exchange reserves to about \$700 million (Wellisz *et al.* 1993). While they were not able to attain growth, at least the rate of decline in industrial production, GDP, real incomes, and state-sector wages was slowed. GDP fell by 7.6 percent, state sector industrial production by 13 percent, real state sector wages were stable with the previous year's level, and non-agricultural private sector incomes increased by 1 percent. Inflation for the year was 60.4 percent, but GDP fell by from 8-10 percent from 1990 levels. Positive interest rates were maintained. If 1990 was a shock because of the rapid change in economic conditions, 1991 was painful because these new, lower states persisted for another full year. The painful element was failure to grow rather than destabilizing collapse.

The positive budget figures for 1990 were not duplicated in 1991. That year's deficit was equivalent to 12.6 percent of expenditure²⁰, but was equal to less than 4 percent of GDP. Social fund spending rose from 10.9 percent of GDP in 1990 to 14.9 percent the following year, indicating that the poor and disadvantaged were not being completely neglected in transitional Poland (Sachs 1993). Because of the rapidly evolving economic situation, social benefit programs had to be reworked several times. Indexation of pensions was retied to a proportion of the average industrial wage, after having falling considerably in real terms. Unemployment benefits originally were at a replacement rate

²⁰ GUS (1992), *Rocznik Statystyczny*, Table 3(226), p. 139.

of 70 percent for an indefinite duration. In the autumn of 1991, eligibility criteria were tightened, replacement ratios placed on a declining scale, and the duration of benefits reduced to nine months.

While unemployment benefits were tightened, the jobless rate continued to rise. By year's end, it reached 11.8 percent of the labor force, or 2.3 million. Real wages, which fell approximately 30 percent in 1990, fell an additional 2 percent in 1991 according to Schaffer.

Of all the aspects of the economic program, the most publicly reviled was the *popiwek* excess wage tax. Considering how the general academic opinion holds that the wage policy did little to restrain wage increases, and in fact may have accelerated them, it appears that the *popiwek* may have been an obvious target even if it was not the root of the problem. Much of this was undoubtedly the result of populist agitation from both the former communist and post Solidarity labor-oriented factions. In 1991, the government relaxed the *popiwek* regulations, fearing that enterprises would be bankrupted by their tax bills. One source of conflict in interpreting wage behavior in 1990-1991 is that the perspective can greatly change its appearance. De Crombrughe and Lipton point out that whereas from the consumer's point of view, average wage increases were only slightly greater than the CPI, from the enterprise's position it could be argued that wages grew 24 percent more than producer prices in 1991, increasing the wage bill and cutting into scarce profits. On top of wage rises, many state firms were consistently incurring liabilities for the *popiwek* tax through paying out wages over the wage norm.

From December 1990, the fixed rate zloty experienced real appreciation. The May 1991 devaluation may again have been overly deep, but was considered necessary to restore international competitiveness for the crucial export market. The exchange rate went from 9,500 to 11,072 zlotys to the dollar under the new crawling peg mechanism. The devaluation did not keep pace with inflation, and affected competitiveness. Exports fell in 1991 and imports increased, leading to a trade deficit. Recovery had not yet begun during 1991, hindered as it was by the additional shock of the breakdown of CMEA trade.

The CMEA was formally dissolved on the 1st January 1991 and CMEA trade, which had been on the decline over 1990, tumbled further in 1991. As trade and especially oil prices became dollarized, the domestic price of these goods rose. The

collapse of CMEA trade also endangered the continued existence of about sixty large Polish firms which were directly almost entirely dependent upon this trade. Many of these firms were organized as the economic centers of entire regions. If these firms were to go under, entire local economies would be imperiled. Because housing is so scarce, labor is not perfectly mobile. If these large enterprises shut, the knock-on effects would lead to pockets of extremely high unemployment.

The growth of organized political resistance was perhaps most clearly articulated in the October election results, which were interpreted as a significant rejection of the government's economic policies. Gomulka (1994) proposes that the traumas of the initial transition -- liberalization, stabilization, and trade reorientation -- bring about a "reform-related economic crisis". The economic and social costs of the reform program then cause deep rifts in social attitudes, bifurcate the policies of reform movements, and increase political tensions. As a result, the government may moderate the reform process, by slowing it down without substantially changing the essential direction of reform.

The first completely free parliamentary elections were held on October 27, 1991. UD entered the election representing a fairly wide range of ideological stances: from the liberal right to more West European-type social democratic models (Vinton 1993). It did worse than expected, winning 12.3 percent of the vote and 13.5 percent of Sejm seats. This was perceived as a definitive indication of the public's disapproval of UD's commitment to the economic austerity program. The SLD finished an extremely close second, with 11.99 percent of votes and 13 percent of seats. Although much was made of the apparent resurgence of the former communists, Vinton asserts that they had not succeeded in mobilizing its selected constituency, industrial workers, but received its support from the former *nomenklatura* and pensioners. ZChN and PSL both received the same number of seats, 50, but came from opposite ends of the political spectrum. Political support was primarily divided three ways, with the liberal parties gathering about half a million votes more than the post-communist and peasant parties (SLD, PSL, PL), which while representing very different interests were all distinguished by their demands for exceptions to and exemptions from the pressures of marketization.

UD received its strongest support from the intellectual and managerial cadres, professionals, and private sector entrepreneurs. Unskilled workers also gave the largest share of their votes to UD, but this group's voting was spread across the spectrum as were

votes from skilled workers. Farmers and farm workers predictably gave the lion's share of their votes to the PSL, although farm workers gave more votes to the PL than individual farmers²¹.

The political stalemate which followed the election was finally overcome in December. Walesa's opposition was eventually overruled, and Jan Olszewski of PC was nominated to become prime minister. Olszewski entered government with two policy goals: *lustracja*²² and a "breakthrough" to a more interventionist, pro-industry economic policy. Olszewski was very much opposed to the Balcerowicz model of rapid, liberal reforms and operated in a much more populist mode.

The primary concerns of 1992 were the effects of the drought on agricultural output, rising unemployment, and renewed growth in the budget deficit. The biggest contradiction in 1992-1993 was that although the economy finally began crawling and then racing levels of growth, this expansion was not matched by either sufficient job creation to reduce the unemployment rate or real wage increases.

By the end of 1991, the private sector accounted for 24.6 percent of industrial production, up from 16.2 percent in 1989. Private industrial output grew by 50 percent in 1991 alone, an achievement all the more impressive considering the collapse of the CMEA markets (Rostowski 1993). However, the rise in the private sector did not create enough jobs in the right regions to take up the slack of former state-sector employees. By the end of September, the number of those employed was the same as a year previously, but the absolute number of the unemployed had increased. This is largely attributable to the addition of school-leavers and new labor market entrants to the ranks of the jobless. Unemployment by the end of November had reached 13.5 percent.

In April, industrial output began to rise, even in the state sector. This was after two years of decline, in which state sector production was cut to an estimated 45 percent of 1989 levels. By the second half of the year, a recovery seemed closer, with output in July 9 percent higher than one year previously. Inflation at an annualized figure of 41 percent in July was lower than the previous year's 60 percent, but the general concern was that higher food prices and greater government expenditure would fuel inflation during the latter part of the year (Robinson and Bobinski 1992).

²¹ CBOS (1991), "Preferencje wyborcze społeczeństwa na 2 tygodnie przed wyborami", Report 801/91.

²² The policy of revealing those who had collaborated with the communists, with the *de facto* if not *de jure* result of their being excluded from positions of influence in public life.

The highly representative electoral system used in the 1991 vote led to a fractionalization party system. Parliamentary seats were distributed across 29 electoral lists. Governments in the 1991-1993 parliament had an average of seven coalition partners. In the spring of 1992, the Olszewski government encouraged talks to broaden representation of pro-reform parties. The minority Center Alliance expanded the coalition to include UD, PPPP, and KLD. The protectionist and interventionist economic policies introduced by Olszewski in the early part of this tenure as premier, and in particular the increase in import tariffs, caused a negative reaction from voters and the market. In the expanded Olszewski government, Kongres Liberalno-Demokratyczny, which espoused a liberal, anti-inflation and free-market orientation, was able to gain an influence over economic policy disproportionate to its small membership size. Bringing in KLD and UD was primarily an attempt to preserve confidence in the government by moderating Olszewski's anti-liberal zeal.

This was not enough to preserve the government. In June, the Olszewski cabinet was ousted after losing a vote of no confidence arising from the handling of a "decommunization" campaign as well as its failure to meet its promise of a socially responsive economic "breakthrough". Olszewski went on to leave the PC and form the parliamentary faction RdR with a group of his supporters.

Walesa initially asked PSL leader Pawlak to form a government, but he was unable to do so. In July 1992, Suchocka was installed as prime minister of a seven-party coalition government led by UD. The government, which included in its ranks the former premier Bielecki, was notable for the numbers of veterans of previous post-1989 cabinets. Its immediate goals were to cut the resurgent budget deficit, to accelerate privatization, depoliticize pay negotiations through a social "enterprise pact", and to sustain export-led growth and recovery without sparking off renewed inflation. It was also intended to restart talks with the IMF on a new loan agreement. The Suchocka government was consistently hindered in its attainment of its economic goals because of the lack of a majority in the Sejm throughout its tenure in power.

The summer of 1992 saw a resurgence of labor unrest, manifested in a series of strikes and demonstrations. The primary demand was over wages and the *popiwek*, but these protests were increasingly linked to broader issues of economic policy, particularly towards the failure to bolster failing state-owned enterprises (Hausner 1992). In July,

miners struck to protest mine closures and to demand monthly wage increases of 1.2 million zloty (\$90). The Privatization Ministry was in the process of turning the mines into a stock company²³. Strikes in copper mines in Legnica drove up prices on the world market. Solidarity '80, which hearkened back to the social democratic ideals of the 1980 protests, backed a strike at the FSM plant in Tychy, which threatened to cause Fiat to consider pulling out their recent \$2 billion investment agreement²⁴.

Hausner points out that the problem of the *popiwek* was that large, unprivatized monopoly firms could neither be liquidated nor pay wage increases equivalent to the increase in the cost of living. To do this, the firm would have to either pay the tax, because indexation would keep real wages ever lower, or reduce their workforce as after 1991 the tax was levied not on the average wage but the wage bill. Many economists would point out that the goal was to reduce labor to manageable levels. Labor interests resisted further growth in redundancies. Under this pressure, the Sejm amended the *popiwek* law to decrease some rates and introduce some exemptions in favor of some of the large enterprises which could not meet the financial constraints.

Under the centralized system, farmers' income and individual wages were indexed. While the government managed to dismantle these mechanisms, the link of budget sector wages to those in industry proved to be too politically sensitive, and thus were a serious strain on fiscal balance. In the autumn of 1991, government legislation revoking this link was contested by both Solidarity and OPZZ unions and found unconstitutional (Hausner 1992).

Mid-year indicators were mixed, with positive news counterpoised by unemployment rising to 2.3 million or 16 percent of the workforce. Official GUS estimates of the budget deficit for 1992 was 8.5 percent of GDP, and plans were to trim this to 5.5 percent in 1993. Unemployment reached 2.3 million, or 12.6 percent of workforce by the end of October. This eased slightly to 12 percent the following month. By November, the private sector accounted for half of all economic activity.

1992 was the turning point in the transition, with the first indications of an end to the recession and a resumption of economic growth. GDP rose 1 percent in 1992, and industrial production was up 3.9 percent. Inflation was 43 percent for the year, down

²³ Associated Press, 21 July 1992.

²⁴ Associated Press, 30 July 1992

from 70.3 percent in 1991. Wages were 2.5 percent down in real terms that year, and December unemployment was 13.6 percent of the active workforce.

The current account was \$300 million in deficit, but the trade balance was in surplus. Half of all exports destined to the EC, and nearly an additional fifth to the EFTA countries, indicating the successful reorientation of trade to the west. In the first two quarters, exports rose 12.5 percent, to \$6.88 billion. Imports fell 8 percent over the same period, to \$5.9 billion. The improved trade balance was not just accounted for by improved exports, but also the decrease in aggregate domestic demand during the transitional recession. The trade surplus at mid-year stood at \$976 million and the current account surplus at \$389 million. By year's end, although the trade balance remained in surplus by half a million dollars, the current account was \$300 million in the red as payments on foreign debt exceeded various types of foreign capital inflows. The foreign exchange reserve position improved over the course of the year, rising from the equivalent of 2.7 to 3.5 months of current account expenditures²⁵.

The fiscal situation was aggravated by the decline in profitability of SOEs, particularly over the first half of the year, and the ability of the private sector -- which accounted for approximately half of the economy -- to avoid paying taxes. Revenues came in 39 percent under target, but spending continued to swell, especially on social insurance, pensions, and unemployment benefits. With deficit projections for the year totaling 100,000 billion zlotys, or 12 percent of GDP, the government drafted a package which cut the real value of social payments by 10 percent, increase consumer taxes by 10 percent until the introduction of a value-added tax (VAT) in 1993, and to improve tax collection efficiency. The 1992 budget deficit was 6.1 percent of GDP. The budget deficit target of 5.5 percent of GDP was enshrined in an IMF agreement, and it also became conditional to the ongoing London Club negotiations. A 10 percent import duty constituted a degree of withdrawal from Poland's extraordinarily open trade policy.

The Suchocka government also proposed an "enterprise pact". The tripartite bargaining forum was intended as a means of addressing the social costs of economic reform. It was intended to give workers a greater stake in the fate of their workplace, and to depoliticize wage negotiations through free collective bargaining. An element of this

²⁵ "Selected economic indicators for Poland" (1993), *Economics of Transition* Vol. 1, No. 3, p. 374.

plan would be the withdrawal of the *popiwek*, with the stipulation that the government would not finance wage rises unrelated to productivity gains.

Despite the positive developments in the GDP and industrial output indicators, the situation for households was still difficult. Continuing falls in real wages, annual inflation of 43 percent for the year, and rising unemployment were sources of public concern. In addition, tightened criteria for unemployment benefits meant that many long-term unemployed lost benefits. By November 1992, the number of unemployed who became ineligible to receive benefits reached 31.4 percent (Chilosi 1993). However, any such consideration of unemployment should take account of the potential scope of fraud and moonlighting (Bornefalk 1992, p. 31).

In labor protests, a movement was detectable in 1992 whereby previous demands for higher real wages were supplemented if not subsumed by demands for restitution of former privileges, including special pension schemes, the abolition of wage increase controls, and preferential, low-rate credits. Rather than being a statement on specific policy demands, industrial action in 1992 took on the appearance of being a directionless response to insecurity and disillusionment with the costs of the reform program.

One of the most important effects of this phase of Poland's transition is that the country confronted serious economic and political crises without derailment of the reform program. While privatization and especially the mass privatization program would be delayed for several years, there were no renationalizations and no return to lax monetary policy and restriction of producer or consumer markets. Despite the crisis in the summer of 1993 provoked by Solidarity's pivotal support of the no confidence vote against the Suchocka government, the 1993 parliamentary incident proceeded without event and power was peacefully transferred to the PSL-SD government. In both these respects, Poland appears to have weathered the difficult intermediate stage of transition with more success than the Balkan countries or Russia, for instance. This phase now can be understood as the most difficult period of transition, and the turning point of reform. Transition was more costly than anticipated by many, and this burden of costs levied a political tool on the parties most closely identified with reform. However, as we shall see in the next section, the combination of economic growth plus consolidation of political forces would lead to a more stable environment in present-day Poland.

2.5 1993-1995: RECOVERY

1993 was clearly the turn-around year for Poland. After four years of intensive economic and social trauma, Poland became the first East European transitional economy to register a full year of positive GDP growth. Unemployment finally and painfully peaked in August, at 16.9 percent, and then appeared to stabilize before starting to creep back down. The recovery was powered by surging personal consumption, and living standards were on the increase. However, despite these positive indicators, the UD-led government lost power in the October parliamentary elections to the SLD-PSL coalition. Parties with their roots in Solidarity lost record numbers of seats to the post-communist parties, and pro-reform parties lost seats to parties taking a more cautious and redistributive approach to market reform. The attitude towards the state of the economy was still quite negative and pessimistic. The number of declared strikes was the highest of any year since 1990, with 7,134 of the total 7,443 occurring in the education sector.

The Suchocka government was intent on keeping to a tight budget. In February, the government received the Sejm's approval for the year's budget, which limited the deficit to 5.5 percent of GDP. A component of this austerity was a limit on wage growth for budget sector employees, but the government offered the prospect of wage increases if the new VAT resulted in increased revenues. Fiscal rigor brought the Finance Minister Osiatynski into conflict with populist elements. In particular, the Solidarity trade union had taken up the cause of budget sector employees through a series of highly publicized demonstrations during the spring of 1993.

In March, the Sejm rejected the mass privatization bill, causing fears that the parliament would deviate from the reform path. Suchocka termed the action "irresponsible", as it endangered talks on a World Bank structural loan and was a condition of the IMF's agreement to extend Poland a \$660 million standby loan (Bobinski 1993a). Opposition to the bill was led by an *ad hoc* coalition of former communists and the more populist wing of anti-communists, as well as 10 ZChN deserters from the governing coalition unhappy with the extent of involvement of foreign managers in the privatization process.

In June, the PL peasant party left the seven party coalition. The shock of the year came in July, when a vote of no confidence called by Solidarity the trade union failed by

one vote. The no-confidence vote was called by Solidarity in protest over the refusal of the government to grant pay rises to budget sector employees and over the form of the privatization program. Ironically, the vote depended upon the cooperation of Solidarity with the former communist SLD. Perpetually dependent upon abstentions to pass bills, the government was brought down by the absence of one deputy (a recently fired minister) from the vote. Suchocka handed in her resignation, and after his initial rejection of the resignation, Walesa called elections for September. On the same day, Walesa also signed into law new election codes, whereby parties were required to gain five percent of the vote in order to gain representation in parliament. The intent was to reduce the number of parties with seats, which numbered 29 after the 1991 elections; only 10 or so of which met standard relevancy criteria (Vinton 1993). Solidarity itself was exhibiting signs of weakness and decay. Besides internal divisions, membership in the union by May was less than half that of OPZZ (Borger 1993). A strike called for May 4 ended up as a poorly attended, disorganized shambles.

In June, over 2,000 farmers staged a protest in central Warsaw, handing a list of resolutions to government official and Sejm deputies. They called for concessionary interest rates on agricultural credits, guaranteed pricing, increased import tariffs on food, and a bailout program for indebted farmers²⁶.

Despite the political turmoil, the value-added tax (VAT) was introduced in July, replacing the communist-era turnover tax. Preferential rates of 7 percent were scheduled for energy, gas, some food, and medical equipment. Construction labor, fertilizers, brokerage fees, certain medicines, and low-circulation books and newspapers are exempt. Excise taxes were also put into effect for petrol, automobiles, alcohol, tobacco, home stereo and video equipment, and cosmetics²⁷. Official estimates forecast that VAT would increase consumer prices by 2-3 percent. Anticipation of higher prices led to a surge in retail sales in the second quarter, boosting demand, increasing consumer indebtedness and shrinking personal savings. Yet this proved to be a false alarm. In the first two weeks of the new tax, prices rose only 1.5 percent²⁸. While the new tax was felt primarily in producer prices in the third quarter, for consumers a greater price shock came in the fourth quarter from an unusually high increase in food prices.

²⁶ *Associated Press*, 26 May 1993.

²⁷ *Associated Press*, 5 July 1993.

²⁸ *Associated Press*, 21 July 1993.

Another last minute piece of legislation which would turn out to be critical for the outcome of the upcoming election was a revised electoral law. The law was changed to combat the less desirable effects of the proportional representation list system, including a proliferation of small, individual-centered parties, resistance to consolidate the fractionalized party system, and the need for large and inherently unstable coalition governments. Because of the hyperrepresentative system used in the 1991 election, there were few incentives for parties with similar penalties to merge. The new electoral law changed most seats to multiple candidate constituencies with higher thresholds for representation: 5 percent for parties and 8 percent for electoral coalitions. A much smaller share of seats were retained for distribution by the list system. It is ironic that the post-communist parties were opposed to the scheme and the post-Solidarity parties thought they would profit from it.

Poland's second free parliamentary election was held on September 12, 1993. The SLD gaining 20.4 percent of the vote and 171 seats, the PSL won 15.4 percent and 132 seats. In a shocking result, UD received only 7.3 percent of the vote and 41 seats, as did the social democratic, anti-communist alternative to the SLD, *Unia Pracy*. Even more than the preceding vote, this result was interpreted to be a rejection of UD, which had dominated the four previous governments (not including Pawlak's failed 32-day attempt to form a government). Because of the fragmentation of the political right, of the rightist parties only BBWR, NSZZ "Solidarnosc" and KLD managed to pass the thresholds, thereby leaving nearly 4 million voters (28 percent of participants) without representation in parliament.

As described in more detail in Chapter 5, the election results indicated a general desire for the slowing down of reforms. While the two post-communist parties topped the poll, the scale of the PSL-SLD dominance of parliament is to a large extent the result of the design of the 1993 electoral law. The SLD-PSL coalition parties, which in the election both capitalized on the disgruntled sections of society, commanded 302 of the 460 seats. The PSL, which received 15 percent of the vote, championed the cause of small-scale peasants. The SLD presented itself as the party best able to guarantee stability through easing burden on the most vulnerable. In the election, they sought to woo the votes of

those who resent the reform process or feel that they have lost out: state sector workers, pensioners, and the unemployed.

Despite campaigning on the promise to effect a fairer distribution of the costs of reform, the SLD in government has proved to be the current parliament's largest pro-reform force. Party leader Kwasniewski emphasized his belief that reforms would only be able to continue if its deleterious effects on the poorest in society were mitigated, but the SLD also stressed its agreement with the basic tenets of privatization and the necessity of cooperating with the IMF.

While the current SLD-PSL coalition will be the first one to last from election to regularly scheduled election four years later, the partnership has been marked by repeated power struggles, mostly centered on populist pressures exerted by the parties' more hard-line members. Pressure to increase social spending has increased and may have slowed the rate of disinflation. However, the SLD has resisted granting extravagant budget sector wages. The party's reformist wing has been trying to enact pension reform, but faces strong opposition from its left wing as well as the political opposition.

The 1993 election was very costly for the anti-communist right. As a result of the failure to form large coalitions, the right was largely excluded from representation. The Catholic electoral alliance *Ojczyzna* gained seats, as did Center Alliance and BBWR, Walesa's "non-party pro-reform electoral group". BBWR was not as successful as Walesa might have hoped; the authoritarian theme of his campaigning recalled the early days of Solidarity as well as Pilsudski's own BBWR -- "designed to win popular support by manipulating the electoral system" (Davies 1984, p. 125). UD was back in the Sejm, although with fewer seats, but KLD was excluded.

In the interim between the election and the installation of the new government, Finance Minister Osiatynski stated that fuel and energy price increases scheduled in the 1993 budget law would not be enacted. A major part of the SLD election campaign was the promise that these prices would not be raised, and action was going to be left to the incoming government²⁹. The incoming SLD-PSL government introduced 10 percent prices rises for leaded gasoline and electricity, 5 percent for natural gas supplies, and 15 percent for heating and hot water. The Finance Ministry reported that energy prices still did not reflect world levels, but that petrol prices were lower than expected due to the

²⁹ *Dow Jones*, 11 October 1993

lower market price for oil. The outdated and polluting power plants create a source of great inefficiency in the Polish energy industry. An increase of 20 percent for vodka was also planned³⁰.

The Sejm voted in December not to renew the *popiwek* excess wage tax upon its expiration on 31 March. The government stated that the law was no longer needed as more than half of Poland's industry is in the private sector. Plans were that a new wage control mechanism would be developed, thwarting unions' hopes that the mechanism would be dropped completely and immediately.

Not until 1993 did the medium term effects of the Big Bang of 1990 reveal a widely perceptible upturn. GDP growth in Poland for the year was estimated at 4.0 percent in official figures, and some suspect that even this underestimated economic growth. However, the first two quarters of the year saw industrial output rising seven points, and labor productivity up between 11 percent and 13 percent (Robinson 1993). Industrial output was up 8.1 percent from the end of 1992. The budget stuck to its IMF-approved limit of a deficit equal to 4.1 percent of GDP, even despite Borowski's resignation and intra-coalition wrangling over ministerial posts.

The Polish economy continued to privatize in the fullest sense of the word. Excluding private farmers, 46.2 percent of all employment was in the private sector, as opposed to 42.2 percent in 1992³¹. The private sector accounted for 60 percent of economic activity by the end of 1993. In terms of the numbers of registered business entities, the public sector fell in numbers, from 54,862 in December 1991 to 51,768 in 1993. Of this total, the number of enterprises under Treasury administration tripled from 376 to 958. The number of registered private sector firms went from 73,699 in 1991 to 131,488 in 1993, an increase of 77 percent. Of these, the number of firms with foreign participation shot up from 4,796 to 15,053 in two years³². The share of economic activity as compared to the number of registered private firms emphasizes the small size of most private firms, in terms of employment, capital and sales (Kolvereid and Obloj 1992). The importance of small and medium size enterprises in the private sector should not be underestimated.

³⁰ *Associated Press*, 19 November 1993.

³¹ GUS (1994), *Mały Rocznik Statystyczny*.

³² GUS (1994), *Mały Rocznik Statystyczny*.

For the year as a whole, tax revenues were up as a result of changes in the tax system and the improved financial situation of enterprises. VAT collection was successful and tax receipts were higher because of the growth in GDP. Not only did VAT replace the turnover tax, but it also became applicable to certain areas which were not previously covered, including some material supply goods. The most immediate effect of VAT was felt in telecommunications, legal fees, and electric and gas. The impact on consumer goods and services was delayed, as VAT was applied to shipments and deliveries prices under the new tax. The deficit of 5.1 percent of GDP remained within the IMF target zone, with expenditures restrained by the limited means of financing a deficit through monetary and borrowing constraints. The higher revenues enabled the government to devote more resources to social spending without endangering the deficit limit.

Inflation for the year, at 36 percent, was down from the previous year's 44 percent despite a rise in meat prices in the late part of the year. The monthly consumer price rates were lower than in 1992, but the last two months of 1993 saw strong increases in food prices. Service price rises were most significantly affected by the increase in housing-related energy services. The prices for hot water and central heating rose by 70.4 percent and 67.7 percent respectively³³

Money resources of the population grew in real terms, with more foreign currency reserves being held due to the devaluation of the zloty. The zloty was gradually devaluated by a predetermined monthly rate, with a once-off eight percent devaluation in August. Household indebtedness from bank credits (in zloty) rose 87.3 percent from 1992, in foreign currencies by 40.6 percent, for a total rise of indebtedness of 59.4 percent. As mentioned, this was in part due to increased consumption prior to the start of the value added tax in July.

For state sector employees, real wages fell in the second half of the year despite nominal growth in the fourth quarter. The purchasing power of incomes in relation to municipal rents, home appliances, home improvement supplies, furniture, and fuels improved from the year before. Yet for those employees who retained their jobs in the state sector, the picture was not completely bleak. While a considerable proportion of state firms teetered on the edge of bankruptcy, others defied the odds and began to restructure and increase sales despite not being privatized.

³³ GUS (1994), *Rocznik Statystyczny*, Table 14(282), p. 190.

Unemployment was still high, with 1993 year-end figures of 15.7 percent. In employment, 1993 was characterized by a continuation of the shift of labor from the state to private sector. Public sector employment fell 7.6 percent to 6.1 million people, while 5.3 million were employed in the non-agricultural private sector, a gain of 9.6 percent³⁴. While the number of employed remained stable, the jobless total increased to 2.8 million by December 1993, in part because of new entrants. The number of unemployed surged in the third quarter of 1993, as graduates came into the market. Unemployment worsened for women and young people. Another trend noted by GUS was the increase in the absolute number of the long term unemployed (from 1,134,100 in 1992 to 1,294,700 in 1993) and those who are ineligible to receive unemployment benefits (1,495,300, up 300,000 on 1992).

In calculating changes in welfare, the evidence is contradictory. Despite a reported fall in real incomes of 2.9 percent, retail sales rose 11 percent in real terms in 1993 (Robinson 1994a). For the first half of 1993, the effects of the stabilization of average real monthly wages were dampened by the greater number of jobless - who also received greater incomes from social benefits. Real wages rose 9 percent in real terms in November and December³⁵, but because of the magnitude of food price rises in the last two months of 1993, real income still fell 2.9 percent for the year on average. Pensioner and other households dependent on social welfare as their primary source of income had a maintenance of the real purchasing power of their incomes from 1992.

At the moment of the big bang in January 1990, few believed that the course of transition would be as long and painful as it has been. The public belief that the economy would flourish once the communism system was dismantled was not contradicted by politicians who sought to maximize their honeymoon period in order to get through the most difficult stages. It took longer than hoped and expected to bring inflation down to even close to acceptable levels; this not being accomplished until the summer of 1992. Real wages and output dropped by far greater dimensions than anticipated.

Much of the political constraints to economic reform lie exactly in that the losers' situation becomes apparent earlier and more clearly than for the winners. It could also be suggested that successive governments have alienated nearly every social group in turn.

³⁴ GUS (1994), *Mały Rocznik Statystyczny*.

³⁵ *Reuters*, 6 January 1994

Surely an injury is much more clearly remembered than a subtle improvement. Political stability may hinge upon whether Poland can create and sustain strong economic growth, which was one of the foremost goals in overthrowing socialism.

In addition to the problems originating in the stabilization process, the restructuring process has also brought its own share of dilemmas. Especially regarding employment, one's perspective changes the tabulation of costs and benefits. Figure 4.1 shows that labor was shed by state-owned enterprises much more slowly than output fell, indicating that there was no sudden shake-out of redundant labor, and unemployment could have become even worse much more quickly. While one could say that this dampened the potentially destabilizing effects of even greater mass unemployment, it could also be seen as a factor in delaying the necessary reallocation of labor and resources.

In November, the first step towards the implementation of the mass privatization scheme was made, with the deadline for bids by hopeful managers of the national investment funds (Bobinski 1993b). This scheme will bring approximately 600 still-profitable state sector enterprises into the private sector. This plan is the offspring of the original blueprint drawn up by the then-minister for privatization Lewandowski in 1991. The SLD-PSL government has no real choice but to continue the privatization process, as it has become a barometer for international observers to gauge the government's commitment to privatization.

1994 was the first full year in which post-communist parties have democratically governed Poland. While their election campaign promised to ease the costs of transition for the most vulnerable members of Polish society, actual performance suggests that the foundations laid by the early reform program have made the post-recession recovery possible. Despite the new optimism, unemployment was very slow to come down from its peak of 16.3 percent in August 1993.

The Pawlak government remained in office for just about one year. Although Pawlak's attitude towards reform was broadly hostile, obstructive, and suspicious, at no time did the Pawlak government state that they would reverse the course of reforms. To the contrary, they seemed especially concerned to assure the international economic community that moves towards a free, market economy would continue. Indeed, after the

takeover of FSO by Fiat and several foreign multinationals taking majority shareholdings in Wedel and other visible Polish firms, the EBRD expressed its confidence that privatization would continue irrespective of the parties in government (Shasha and Jakubiak 1994). However, the delays in implementation of the mass privatization program (PPP) belied the ongoing struggle with the coalition between reformers (strongly represented in the SLD) and more gradualist and socialist tendencies (notably in the PSL). Most observers also anticipated stronger protectionist pressures and policies in the new year.

The year 1994 began with nervous statements from the NBP, warning that the relaxation of wage controls would endanger Poland's budget deficit and inflation targets for the year³⁶. Both the Finance Ministry and NBP reiterated that the budget deficit would not be increased. The central bank stated it could financing the deficit by up to 30 trillion zlotys of T-bills, but beyond this it would have to print money. The fundamental concern to reduce inflation further was the driving principle behind central bank policy, and at times it conflicted with the lower rates of disinflation apparently selected by the finance ministry.

The final version of the 1994 budget, debated in the Sejm in March, won the approval of the IMF, but was bitterly attacked by the "Solidarity" trade union. The chair of the parliamentary budget committee, Wieslawa Ziolkowska, complained that it did not so much relieve the costs of reform in the social sphere -- as the PSL-SLD coalition had promised in the election -- as much as it would slow the negative effects³⁷. Contrary to Pawlak's public statement in November, spending on education, culture, science, and health care was not significantly increased. Increased subsidies to farmers were included, prompting criticisms that the money used in propping up farmers could be more effectively used elsewhere. Solidarity threatened strike action to force modification of the budget to include salary and pension increases, and cancellation of scheduled price rises for state-controlled gas, electricity, and central heating. OPZZ, a member of the governing coalition, also came out publicly against the strictness of the budget.

While he did sign the budget, Walesa flexed his presidential muscle in vetoing a draft wage tax bill³⁸. The coalition-sponsored proposition would cover state and private

³⁶ *Reuters*, 6 January 1994

³⁷ *Associated Press*, 3 March 1994.

³⁸ *Eastern European Reporter*, 25 April 1994

enterprises. Walesa challenged that the bill amounted to little more than a return to a centralized economy. The Sejm failed to overturn the veto, falling 12 votes short.

Also in April, the radical peasant movement "Self-Defense" (*Samoobrona*) presented President Walesa with a demand that farmers be given debt relief, with payments spread over five to thirty years, and with a grace period of up to five years³⁹ In addition to debt relief, the statement also demanded wage controls and state purchasing intervention in agricultural markets. *Samoobrona* was primarily opposed to the import of cheaper and higher quality Western agricultural goods on the Polish market, especially goods subsidized by the Common Agricultural Policy. *Samoobrona* also campaigned for solutions to the growing problem of rural unemployment.

The agitation which characterized the spring of 1994 continued into the summer, as Solidarity called strikes in several coal mines in central Poland (Bobinski and Freeland 1994). Calling for the end of wage controls, the union also demanded that the tripartite bargaining arrangements proposed by the Suchocka government be instituted. The *popiwek* regulations expired on 31 March, but at that time had not been replaced. The government's determination to retain wage controls underlines the continuing fear of inflation being sparked off anew.

The strike wave continued through May. UP attributed the rise in industrial action to rising poverty and worsening living conditions of workers⁴⁰. Warning strikes spread to new regions, and it was thought that the lack of a government response to the miners provoked further sympathetic actions. The Tripartite Socio-Economic Commission met on 4 May, but failed to reach agreement on wage controls. Trade unions and state enterprise managers were in opposition to renewal of wage controls, while the government was committed to continuing controls through the end of 1994.

In September, the Finance Ministry under its new head, Kolodko, introduced its "Strategy for Poland". In it, the government stated its intention to introduce collective wage bargaining through the Trilateral Commission for Social and Economic Affairs. To combat unemployment, the program suggested investment in technical infrastructure, incorporation of job protection and guaranteed employment clauses into the privatization agreements, and more funds for regional projects. State intervention in agricultural

³⁹ *BBC Summary of World Broadcasts*, 19 April 1994

⁴⁰ *BBC Summary of World Broadcasts*, 6 May 1994

markets should be targeted towards modernizing those producers who are most capable of becoming competitive. It also restated a commitment to spending increases in health, education, and culture as well as a commitment to the continuation of corporatization and privatization, reduction of the fiscal deficit, and enhancing the independence of the NBP. Protectionism gets included as well, with a specific mention of protecting the market from unfair competition.

For as promising as the text read, the public was of the opinion that it was little more than a propaganda measure⁴¹ or another five-year plan which would never see daylight. Moreover, people believed that only the rich would gain from the proposed changes and that it would do nothing to relieve unemployment. More than half believed that it would increase government control over the economy.

In October, the Finance Ministry announced price rises for administered utilities and services⁴². Except for medicine, these price all rose by more than the projected rate of inflation, which the government and NBP both predicted to be close to 17 percent for 1995⁴³. In the same month, the government increased income tax rates for the three progressive brackets from 20 percent, 30 percent, and 40 percent to 21 percent, 33 percent, and 45 percent. This sparked off a battle with Walesa, who proclaimed that people should not pay the higher rates, and brought a suit to challenge this tax raise in the Constitutional Tribunal - a motion which was denied in December.

The presidential election of 1995 began to be fought a full year in advance. While in an interview to Gdansk reporters, Walesa was confident of his chances, a contemporaneous CBOS survey reported that 73 percent of Poles did not think that Walesa properly fulfilled his presidential roles⁴⁴. Walesa was originally written off by all of his potential supporters in favor of any of a number of alternative candidates. At this date, the campaigning mostly consisted of maneuvering, but the lines of debate were already being drawn.

The political right continued to be aware of the need for consolidation, but each group wanted to take the lead role. In December 1994, a ZChN representative proposed

⁴¹ *Gazeta Wyborcza*, 12 September 1994, p. 14

⁴² These include: electricity (to fund investment in generation and distribution infrastructure and to convert aging plants), natural gas (since the Russian Federation is paid in dollars), central heating and hot water (despite lowering the temperature of both), petrol, medicines, and alcohol.

⁴³ *Gazeta Wyborcza*, 18 October 1994, p. 18.

⁴⁴ *PAP Highlights*, 14 October 1994.

that two other coalition groupings, the PdP Alliance (PC, ZChN, RdR, PL, KK) and the 11 November Agreement (UPR, PK, PChD, and two others) merge into a confederation⁴⁵. There was a recognition that such cooperation was needed if the political right was to avoid electoral elimination. ZChN clearly stated in late 1994 that they preferred to align with Solidarity rather than UW. While the 1995 presidential elections was the next contest, there was also an awareness that the right needed to consolidate before the next parliamentary elections, where the real battles would be won and lost. Furthermore, there is a list of shared policy orientations which also characterize the current Solidarity Electoral Action: support for Christian values, strong state, maximization of private ownership within pro-labor policies, and opposition to post-communist parties. The problem, however, was managing to trade

The Mass Privatization Program, which had begun under the Suchocka government, was finally approved by Pawlak on 18 October, reversing earlier opposition which had delayed implementation. 444 industrial enterprises were slated for inclusion; the next step would require approval of overseers of 15 investment funds (NFIs).

Economic performance in 1994 was much more favorable than in 1993. Exports increased by more than 20 percent, while imports increased by a more moderate 13.5 percent. Labor productivity and industrial production were on the increase, both rising by about 15 percent for the year. While the CPI was 37.6 percent for 1993, it was lower in 1994, at an annual average of 32.2 percent (GUS figures). The one disappointment of the year was the continued slow progress in privatization; the mass privatization program was repeatedly delayed under pressure from Pawlak. There was also resistance to pension reform, and the expense of a rising number of pensioners placed an increasingly heavy burden on the economy, drawing away spending from other areas. In 1989, pensions only absorbed 17.4 percent of the central budget, even if many pensioners' benefits were so low as to be under the poverty line. In 1994, pensions took up more than 22 percent of government spending. Without reform, this ratio is set to grow even higher.

In politics, 1994 was distinguished by the rehabilitation of the former communists. Having won the elections, the SLD proved in 1994 that it could govern without reversing economic reform, conduct foreign relations, and avoid the fractious and unprofessional infighting which plagued the Olszewski and Suchocka governments. Tensions arose,

⁴⁵ *PAP Highlights*, 16 December 1994.

however, between President Walesa and the parliament, which in 1995 would increasingly center around Walesa's use of his veto power over key pieces of legislation.

Economic policy in 1994 was characterized by the conflict between the high unemployment level and the political pressure to do something about it versus the necessity of continuing the anti-inflation policy. The SLD-PSL government has been surprisingly stringent in monetary and fiscal matters. However, the PSL has proven itself to be more prone to demands for protection from its constituency, agriculture and especially small private farmers. From the extension of import subsidies to the recapitalization of *Bank Gospodarki Zywnosciowej* (BGZ), this conservative element seems to be the source of the greatest tension with the more reform-minded SLD. This is true in the public mind, as well: nearly half of all Poles surveyed thought that 1994 was the same as 1993, 31 percent thought 1994 was worse than 1993, and only 20 percent thought things had improved⁴⁶. Likewise, 47 percent thought 1995 would be the same as 1994⁴⁷.

Contrary to these expectations, the public's confidence rebounded in 1995. It was only now, five years after the "big bang", that confidence began to match the favorable economic performance of recent years. For an election year, 1995 was much less eventful than the preceding years. As such, this section will concentrate on economic performance and on the election as a summary of the course of reform to this point.

The annual inflation rate began to recede at a faster pace. The annualized CPI for the first quarter of 1995 was 33 percent, compared to 31.6 percent in the second quarter, 25.8 percent in the third and 22 percent in the fourth⁴⁸. Within one year, the inflation rate declined by more than 10 percent. Probably the most important contributing factors was the gradual decline of unemployment and the rise in real wages and pensions. By this time, people who had managed to hold onto their jobs were in a fairly safe position. Real wages grew 4.2 percent in the third quarter and 11.8 percent in the fourth quarter of 1995.

The recovery also gained a more solid footing without losing speed, with investment accounting for a larger share of the growth. Manufacturing was the sector with the

⁴⁶ *PAP Highlights*, 23 December 1994.

⁴⁷ *PAP Highlights*, 3 January 1995.

⁴⁸ GUS (1996), *Poland: Quarterly Statistics*, June, p. 5.

highest increase in production, with much of this being in consumer good industries rather than intermediate goods.

Poland in 1995 demonstrated much less social tension. There were fewer strikes, and the ones which occurred were mostly at firm-level for higher pay. It appeared that unemployment had peaked, and net job creation was beginning. Growth in the first half of the year was the highest since the start of transition. Industrial production was up 13 percent in the first two quarters of the year, with more than half of firms making a profit and also booming import and export growth⁴⁹. The newly optimistic Polish economy also received a renominated currency on January 1, 1995. Four zeroes were dropped from the old values, and the introduction of the new money proceeded very smoothly.

In contrast to the relatively harmonious prosperity and growth on the economic scene, the political arena continued to be raked by sharp interpersonal differences, tensions between the coalition partners, and conflict between President Walesa and the government. Walesa used his power of veto and reference to the Constitutional Tribunal to try to counter the SLD-PSL coalition at every opportunity. In January, Foreign Affairs Minister Olechowski -- who had been appointed by Walesa as one of the "presidential ministries" -- resigned. The cause of the resignation was a long running dispute with Prime Minister Pawlak over possible financial misdoings of state officials. In response, Walesa mounted an offensive against the Pawlak government. In February, Walesa sent the budget act to the Tribunal for judicial review, and then threatened to dissolve the parliament for failure to pass the budget law. Pawlak and Walesa continued to battle over appointments to the "presidential" ministries (Defense, Interior, Foreign Affairs). It eventually took a SLD-led vote of no confidence vote in the Pawlak government to end the crisis.

This move eased tensions between the president and government. On 1 March 1995, the Sejm approved the nomination of Oleksy to be Prime Minister. Oleksy and his new government were installed on 3 March 1995. The new cabinet included Walesa's three nominees for the "presidential" ministries: Okonski in Defense, Bartoszewski in Foreign Affairs, and Milczanowski remaining in Internal Affairs (Jasiewicz 1996, p. 439).

In March, *Unia Wolnosci* shifted itself decidedly towards a liberal, market party with the election of Leszek Balcerowicz as party chief. *Unia Demokratyczne* and KLD

⁴⁹ OMRI Daily Digest, 25 July 1995.

had merged in April 1994. In the run-up to 1995's presidential elections, UW sought to reposition itself as the most clearly pro-reform, politically and economically liberal party. However, its public approval ratings sank to just around 10 percent in the 1993 elections and have not risen for any appreciable time since then.

In September, Walesa again exercised his veto power to protest against reform initiatives of the SLD, this time by overruled the pension bill. The pension bill sought to enact only indexation adjustment for 1996. However, Walesa was not the only fractious force in politics. Throughout 1995, Sejm deputies from anti-liberal parties including the PSL, Unia Pracy, Polish Socialist Party and the KPN repeatedly demanded the resignation of Privatization Minister Kaczmarek. This political maneuvering did not won votes. To the contrary, survey respondents were on favor of greater political stability.

Walesa had declared his candidacy at the very start of the year, and in May the SLD leader Kwasniewski declared that he would run for president. The UD chose as their candidate the most popular politician in Poland, Jacek Kuron. However, for reasons detailed in Chapter 5, this did not succeed in reversing their declining political fortunes. In early October, the candidates for the presidential election were registered. These included incumbent Walesa, former premiers Olszewski (RdR) and Pawlak (PSL), SLD leader Kwasniewski, KPN leader Moczulski, UPR leader Janusz Korwin-Mikke, National Bank president Hanna Gronkiewicz-Waltz, Jacek Kuron (UD), Lech Kaczynski (PC), and a range of other marginal candidates from right and left. It is interesting that early in the year, the SdRP unofficially asked Pawlak to represent the coalition in the elections⁵⁰, especially considering the actual election results (Chapter 5). However, in December 1994, Pawlak and Kwasniewski had both enjoyed popularity ratings over 50 percent.

Towards the end of the election campaign, the serious situation for rightist candidates led to rather strange campaign tactics. Walesa said he would return to his 1990 pledge to distribute large sums of money to the entire population except wealthy capitalists. Olszewski met publicly with US Speaker of the House and radical Republican Newt Gingrich. After the failure of the St. Catherine's Convention alliance talks, each of the right-wing candidates spent their energy trying to get other rightist candidates to resign. As a result, Walesa -- who continued to receive the largest share of negative votes in the election -- emerged as the only credible candidate of the anti-communist right.

⁵⁰ *Donosy*, 10-13 January 1995.

The first round of the election was scheduled for 5 November 1995. Kwasniewski took the lead in opinion polls straight away, and did not relinquish this lead during the race. Walesa, on the other hand, began the unofficial campaign with very low and variable levels of support, often below 10 percent. Kuron and Zielinski were credible candidates on the post-Solidarity left, and in the summer Central Bank governor Hanna Gronkiewicz-Waltz entered as a candidate from the Catholic right. Walesa almost seemed to be out of the race, but over time -- perhaps because of Kwasniewski's strengthening position -- voters on the anti-communist right switched to Walesa as perhaps the only credible opponent to Kwasniewski. The election was a two horse race, with Walesa and Kwasniewski proceeding to the second round. Kwasniewski was victorious in the second round, held on 19 November 1995.

At the time of writing, Poland may be considered still to be in this phase of the post-communist transition. Not only is the economy in a strong recovery fueled by investment rather than consumption, but also democracy and political competition continue to function as the country prepares for its third free parliamentary election, to be held in the autumn of 1997. Yet it is important to remember that the costs and benefits of Poland's economic transition have not been evenly distributed, nor have all political groups attained equal influence over the direction of reform. In particular, the interests of urban and rural interests have diverged on a number of key policies, including various forms of subsidization and import tariffs and price regimes for food products. In the next section of this chapter, the course of events described in the preceding chronology will be viewed from the perspective of agriculture.

2.6 AGRICULTURE DURING THE TRANSITION

It is more difficult to categorize the agricultural sector's experience of transition into our four phases. The chronology above could be said mostly to reflect both aggregate concerns and those of urban residents, who make up two-thirds of Poland's population. However, Poland's smallholding, private farmers have operated under very different incentives than wage-earners and pensioners, for instance. Because of the inefficiency and near-intractable difficulties of reforming this sector, transition has levied very different pressures on food producers. Agrarian parties espousing protectionist policies have

attracted significant levels of electoral support. Poland's farmers by and large remain socially conservative, creating further political demands which can vary from those held by more urban electorates.

Profit from disequilibrium?

While the late socialist economy in Poland was engaged in a cycle of wage hikes, price rises and unpredictable access to consumer goods, farmers' relative position improved as a result of the an income parity policy. Through reform of producer prices, this policy boosted farming incomes to the higher level of average industrial wages. Yet because dramatic increases in official food prices were politically unacceptable, this policy required massive subsidization of consumer prices. Furthermore, as economic disequilibrium worsened, farmers who had access to the relatively open "farmers' markets" profited from rising food prices in the parallel market.

Politically, farmers had representation in communist-era governments through the United Peasants' Party (ZSL). After transition, this organization retained not only its infrastructure but also a considerable share of its constituency. Now reorganized as the Polish Peasants' Party (PSL), the farmers' party has been characterized by its strong pursuit of sectoral interests. While farmers have remained generally in favor of redistributive programs which work in their favor, there remained enough anti-communist and pro-Church sentiment amongst the rural sector -- and especially in the "old" regions of Poland -- for this segment of the population to support political liberalization and regime change.

1989-1991: Slide into recession

The August 1989 liberalization of retail food prices was probably the most important event for the farming sector. Most other consumer prices were still controlled, and the spillover of excess demand into the food market raised farmers' profitability (Podkaminer 1986). Consumers did not benefit from improved supplies of food after the 1989 harvest, as some farmers held back produce, hedging that prices would rise further. This partial liberalization and the spillover effect increased farmers' expectations of future gains from marketization. Many thought that there would be a surge of potential demand for food in the domestic market, even at higher prices. However, as shown in Bell and

Rostowski (1995), food shortages were the result of repressed demand for consumer goods and services. Farmers would soon be disappointed by the drop in demand and adverse terms of trade shift which would result from price and trade liberalization.

While the farming sector supported political transition, it reacted with an early, sectorally motivated response to the perceived injustices and costs of the Balcerowicz Plan. Within the first week of January 1990, the PSL urged the Mazowiecki government to protect farming "through guaranteed minimum procurement prices, preferential credits, and establishment of a rural agency for intervention buying on the food market" (Olszewski et al. 1993). For as much discussion as there has been about the lack of crystallization of group interests due to the very uncertain economic environment (Kolarska-Bobinska 1994), here is a very clear statement of economic interest which has not varied in substance in the seven years since. Furthermore, the PSL remained at the forefront of pressing for farmers' interests.

Under the socialist regime farmers' incomes were supported by large subsidies. In Chapter 3, we shall see how the budget cutting and price liberalization aspects of the stabilization program provided the farming sector with perhaps the sharpest economic shock of all the socioeconomic groups. In the first three months of the program, procurement prices lagged behind consumer prices, while liberalized input prices (fertilizers and chemicals especially) were increasing quickly. By March 1990, the Mazowiecki government extended assistance to the agricultural sector. They suspended tariffs on imported agricultural inputs, including for pesticides, fertilizers, and machinery, for the remainder of the year.. Farming and housing construction, both of which were considered vulnerable sectors and the shortcomings of which are sources of political discontent, became eligible for received subsidies in the form of discounted interest rates (of 20 percent and 32 percent respectively) on credit payments. These were not the sole concessions of the reforming government. The import of distilled spirits over 160 proof and aperitif-type products was blocked, with the purpose of spurring domestic production and thereby creating a larger market for Polish grain producers (Kwiecinski and Quaisser 1993). However, these measures were not enough to head off agricultural protests. In April 1990, farmers' protests erupted in Bieszczady, denouncing the government's agricultural policy.

Three months later, segments of Poland's farmers were still protesting against the imposition of the market. This rash of peasant protests was mostly over continued demand for guaranteed minimum procurement prices. Farmers' lobbies argued that higher guaranteed prices were needed to cover the quickly rising costs of fertilizers, fuel, and farm machinery. Moreover, high interest rates increased loan burdens, and bankrupt cooperative-sector food processors failed to pay farmers for deliveries⁵¹. Since the start of the year, market forces had acted to decrease lower household consumption and compel food processing firms to waste less, thus depressing domestic demand for produce even further.

The Mazowiecki government never explicitly declared as a matter of policy that small-scale farmers should either become profitable or else be put out of business. However, public statements to this effect from prominent, individual economists were interpreted by peasants as implicit announcements of government intent. This is reasonable given the role of experts and technocrats in the drafting and implementation of the Balcerowicz Plan.

The Mazowiecki government continued to make limited concessions, abolishing export limits of agricultural goods and maintaining protective import tariffs, but still the protests continued. On 11 July 1990, farmers again blocked thoroughfares across Poland. The use of direct action implied that farmers considered such illegal behavior as occupying ministries and blocking roads as the only effective way to express their dissatisfaction. As the year progressed, democratic institutions received more unfavorable appraisals in the media. Elected government was pilloried as the agent of farmers' hardship. The political impasse seemed to be particularly frustrating to members of Rural Solidarity, who felt betrayed after long years of resisting communism and collectivization.

While uncertainty was especially great in the state industrial sector in 1990, the agricultural sector was struggling to cope with the removal of state support. Agriculture's share of GDP fell from 11.8 percent in 1989 to 7.2 percent in 1990, and that of private agriculture from 9.6 to 5.9 percent (GUS figures). The deterioration of agricultural terms of trade arose as industrial input prices rose (due to the dual effects of price liberalization and the cessation of input subsidies) more frequently and more quickly than retail prices

⁵¹ *Associated Press*, 12 July 1990.

for produce. Through falling demand and worsening terms of trade, real income⁵² in the average farming households was halved during 1990.

Centralized control over the means of agricultural production was discontinued in 1990. The decline in demand, increase in input prices and worsening of producer prices, and the positive interest rate worked to exacerbate losses in the terms of trade. The fall in real consumption accounted for a fraction of the total decrease in demand. With the end of the shortage economy, hoarding ceased, and with it excess purchases. The removal of subsidies to the food processing industry introduced incentives to cut waste. Artificial turnovers led to the phenomenon of "idle cycling", where products are sold at a high price and bought again after processing at a low price (Quaisser 1986). The irrational pricing structure had meant that animal feed consisted of whatever had the highest subsidy, at times this was bread and dairy products.

The expectation of the agricultural sector that they would profit straight away was thwarted by the limited space for increase in the demand for food from the high levels of the late 1980s. The income elasticity of demand for unprocessed foods is low, as compared to the higher demand for more processed foodstuffs in higher income households. Agricultural production found an outlet through increasing exports in 1990, in that year receipts from food exports totaled \$1.4 million. While this surplus was significant, it was only temporary.

The agricultural sector experienced worsening conditions through 1991. From the autumn of the year, individual private farmers had been pushing for the resolution of their debt problem. The previous year's agricultural trade surplus diminished from \$1.4 million to \$400 million. With the appreciation of inputs such as fertilizers, pesticides and herbicides, and protein animal feeds, production fell slightly in 1991, but with only a small effect on the value-added (Kwasniewski and Leopold 1993). Also hard hit were larger, high technology farms and livestock farmers. Structural adjustment occurred only in the slightly favorable shift to increased production of grains more appropriate for the climate, e.g. rye. However, the relation between procurement and market prices improved over the year, if only because fewer chemical inputs were being used⁵³. Good weather aided in keeping production levels higher than they otherwise might have been.

⁵² As measured by official CPI deflators.

⁵³ GUS (1992), *Rocznik Statystyczny*, Table 7(270), p. 165.

For agriculture, the drought of the summer of 1992 was disastrous. The bad harvest only aggravated the debt problems of food processors. Cereal prices rose, making imports more competitive and threatening to displace the remaining domestic production.

A radical reaction from the peasant sector displayed itself through the *Samoobrona* (Self-Defense) union, which aggressively mounted protests against government policy including an occupation of the Ministry of Agriculture building (Hausner 1992).

While the Mazowiecki and Bielecki governments had adopted a relatively liberal policy regarding agriculture, during 1992 the Olszewski government introduced more interventionist policies. Farmers were offered credits at concessionary rates, and minimum guaranteed prices for wheat, rye, and milk were introduced. The Agricultural Market Agency (*Agencja Rynku Rolnego*) was empowered to stabilize food market prices during seasonal fluctuations. It can be argued that a price stabilization mechanism is not a step down from marketization, but rather is a characteristic feature of advanced market economies and served the beneficial function of smoothing out sharp price movements. Government action was intended to be limited to this sphere.

1993-1995 Lack of substantial recovery

While Polish industry and service sector -- both private and state-owned -- experienced a resurgence in production starting from mid-1992, farming remained in a malaise through the 1995 presidential election. The political clout of the agrarian lobby increase, however. While the PSL had participated in several post-communist governments, and whose withdrawal from the coalition was one factor behind the demise of the Suchocka government, after the 1993 parliamentary elections the PSL entered into a coalition government with the SLD (the electoral coalition primarily comprised of the former communist party and the communist-era trade union). Although the PSL are junior partners, they have exercised control over the agriculture ministry and, for the first year of the coalition, controlled the prime minister through Waldemar Pawlak.

While 1992 was a particularly bad year in agriculture in part because of the drought, expected production gains of about 20 percent were realized in 1993. Agricultural output was still 11.3 percent below average results for 1986-90⁵⁴, yet with output varyign considerably be sector. State farms in 1993 were producing only 44.8% of

⁵⁴ GUS (1994), *Rocznik Statystyczny*, Table 11(413), p. 363.

1985 output in constant values, and cooperatives at only 78.4%, due to closures and privatizations. However, individual, private farms were producing at levels 97.8% of 1985 results.

Individual farmers were consuming more of what they produced, and the share of direct sales of produce were slightly on the increase. For farmers, incomes fell as sales grew more slowly than their consumption. Real income for farmers is estimated to have fallen by between three and five percent from 1992, and is 60 percent below 1988 levels. The effects of the drought for grain production and feed crops the previous year meant that livestock production was lowered in 1993. Terms of trade worsened for farmers, as selling prices trailed behind prices for investment, production, and consumption goods. Higher feed costs contributed to a fall in livestock production in 1992, but falls in grain prices in the latter part of 1993 and higher prices for animals led to a turnaround whereby more greater slaughters decreased livestock numbers again by the end of the year.

It has been argued that the benefits of reforms were yet to be felt in small towns and rural areas. The cessation of subsidies and loss in terms of trade between agricultural produce and manufactured goods and services have overshadowed the perceptible benefits of the market economy. Moreover, pre-election political organization in rural areas, particularly by former opposition parties, was far less pervasive and less effective than in urban regions. After deposing the common enemy, the confusing array of parties may have driven voters back to familiar names and pleasing populist rhetoric.

In December 1993, the new government introduced a bill to place surcharges on “strategic” imported foods to make up the difference between the imported goods' price and the minimum domestic level guaranteed by the Agricultural Market Agency's intervention prices. The purpose was to prevent subsidized imports from undercutting domestic producers. The effect, which became felt in 1994, was an increase in retail food prices. Because tax on food acts as a regressive tax, this policy of sectoral support fell heaviest on the poorest groups of society, including impoverished pensioners and the urban unemployed. As shall be shown in Chapter 3, food consumption fell in 1994 but spending increased; a sure sign of the impact of protectionism.

The political clout of the agricultural lobby was further demonstrated in late January 1994, when it was announced by the PSL-controlled Agriculture Ministry that farm credits would be subsidized to reduce the interest rate to 10 percent, compared to

about 40 percent in commercial credits⁵⁵. The reasoning was that the several trillion zlotys owed by the food processing sector to farmers was discouraging production, and that domestic production would collapse without cheap credits. In February, the Sejm approved import subsidies on certain imported agricultural produce⁵⁶. Intended to protect Polish agriculture from unfair competition, the surcharges would bring the price of imported produce up to the minimal procurement level used by the government in its intervention buying. Critics of this protectionist bill stated that it would subsidize inefficient domestic producers through higher prices - paid at the expense of Polish consumers.

During 1994 and 1995, agriculture remained stagnant, with few production or income gains and a creeping worsening of certain indicators such as income levels, poverty, and rural unemployment. The poor state of the farming sector not only poses problems for policymaking and elections, but it also will complicate Poland's integration with the European Union. In an 1997 interview, Franz Fischler, EU Agriculture Minister, argued that while the problems in Polish agriculture were not insurmountable, restructuring of the sector inclusive of increased foreign investment was important for future integration.⁵⁷ The failure of Poland's private farmers to share in the economic recovery is not only potentially politically decisive but also economically costly in terms of future restructuring as well as income support and poverty alleviation programs.

2.7 CONCLUSIONS

Poland's economic and political transition can be separated into four phases: *pre-reform crisis*, *extraordinary politics*, *post-reform crisis*, and *recovery*. Of the few countries which have implemented the comprehensive reform package commonly referred to as "shock therapy", Poland entered recovery first and continues to be one of the fastest growing economies in Europe. The above sequence is perhaps most useful in illustrating the course of democratization. As such, this course of development is not only relevant for the case of Poland, but this sequence of transfer of political incumbency from communists to the pro-reform (former) opposition to reformed communists can also be applied to

⁵⁵ *Reuters*, 27 January 1994.

⁵⁶ *Reuters*, 4 February 1994

⁵⁷ "Rolnictwo: problemy powazny, ale nie najwazniejszy", *Rzeczpospolita*, 26-27 April 1997, p. 7.

other transition countries. In 1993, Lithuania elected a government with links to the former communist party. In its 1994 election, Hungary rejected the former opposition Hungarian Democratic Forum government with one formed by the Hungarian Socialist Party, led by Gyula Horn (Racz and Kukorelli 1995). In both these cases, the former communists were returned after governments led by former opposition leaders proved themselves to be indecisive and inconsistent policy makers. In contrast, while Poland before 1993 had no fewer than seven governments, there was surprising consistency in economic policy, apart from the largely unsuccessful Olszewski government. While these three countries have different electoral systems and varying response to reform programs, interpretations of all these results imply that there is some link between rejection of the most identifiably pro-reform parties and the transformational recession, rising unemployment, and so on.

What can we conclude about Poland's political and economic transition? At this stage, it is clear it has been a success, but has not been costless. Poland has made the transition to a market economy, and increasingly economic activity is in private hands. By the end of 1995, more than 2 million small businesses had been set up. The new private sector employed more than **half of the workforce** and accounted for more than **half of all exports**. Yet privatization of state-owned enterprises proceeded more slowly than initially envisioned. Furthermore, the impact of transition has been far from uniform across sectors and socioeconomic groups. The preceding section on agriculture has shown that the incentives and issues for farmers have varied greatly from the concerns of urban residents, employees, and benefit recipients. While the new private sector has flourished, the long-term unemployed have emerged as the losers of transition. Yet the question remains as to the proportions of winners and losers in the post-communist economy.

The following chapters will present further evidence that the post-communist transition has brought both positive and negative results to Poland. However, neither aspect should be neglected in favor of too-optimistic or too-pessimistic evaluations. Starting from the introduction to events and relations outlined in this chapter, let us now proceed to consider several important aspects of the political economy of post-communist transition in Poland, including standards of living, unemployment and poverty, and the politics of economic reform.

Chapter 3

Empirical Evidence on Incomes and Consumption

3.1 INTRODUCTION

This chapter presents a comprehensive analysis of changes in welfare during transition for the key socioeconomic groups in Poland. It clarifies several current debates over the economic costs of the post-communist transition and its impact on living standards. It challenges those criticisms of Poland's radical reform which equate falls in (statistically) real values of income and savings with a proportionate deterioration in aggregate welfare. In fact, a central argument of this chapter is that the distortions of the socialist economy were so severe that the adverse impact of post-liberalization price and income shocks on consumption were outweighed by the positive supply effect on the domestic consumer market. This chapter centers its analysis on changes to real consumption levels as its primary measure of welfare. Contrary to what might be expected, consumption has *increased* despite a sizable fall in "real" income. This chapter also disputes general conclusions extrapolated from state sector employees alone (e.g. Berg and Sachs 1992). The central theme of this chapter is that the costs and benefits of transition have not been evenly distributed across socioeconomic groups.

3.1.1 Some macroeconomic indicators

While every transition economy sustained sizable falls in output, the extent to which this represents real welfare losses is disputed. At least a part of the decline in statistically measured output is thought not to be translatable into an equivalent fall in welfare. One reason is because of intentional mismeasurement. The incentive to overreport production to meet the imperatives of the plan was replaced by the incentive to underreport to evade turnover and income taxes. A second reason is that general welfare is not lessened, but may well be increased through the reduction of waste in the production process and the cessation of the manufacture of unwanted and unmarketable products (Winiecki 1991).

Notwithstanding these points, at least a proportion of the fall in output was real and resulted from shocks to demand (contractionary fiscal and monetary policies

aimed at reducing aggregate demand) and supply (e.g. price liberalization, shifting relative price structure and the slow response time of production in adjusting to the new demand patterns; see Gomulka (1993) and Calvo and Coricelli (1992)).

Seven years have passed since the “Big Bang” of January 1990, and at this time we can examine the medium term effects of the move from plan to market. Poland successfully dampened hyperinflationary pressures in early 1990, but has yet to move into single digit annual inflation, as has been achieved in the Czech Republic. Gross domestic product (GDP) and industrial production suffered drastic falls in 1990, and again in 1991 as a result of the CMEA shock. While the recovery was initially powered by private consumption, export growth and investment are now the main forces behind the improving economic performance. The surest sign that the economy is transforming is the shift in economic activity into the private sector. Not only is the private sector’s share of employment growing, but its contribution to GDP is growing at an even faster rate.

TABLE 3.1
MACROECONOMIC INDICATORS FOR POLAND, 1989-1995

	1989	1990	1991	1992	1993	1994	1995
Gross domestic product ^a	0.2	-11.6	-7.6	2.6	3.8	5.0	6.5
Consumer price index ^b	251.1	585.8	70.3	44.3	37.6	29.5	27.8
Industrial production	-0.5	-23.3	-11.9	4.2	5.6	11.9	12.0
Unemployment (% labor force)	—	6.3	11.8	13.6	15.7	16.0	14.9
Real average wage ^a	9.0	-32.3	-2.3	-12.1	-0.8	1.1	4.5
Consumption ^a	-1.3	-11.7	3.3	5.0	6.4	2.5	3.0
Gross fixed investment ^a	-2.4	-10.1	-4.1	0.7	1.9	6.0	8.0
Private sector/GDP (%)	28.6	30.9	30	40	45	50	60
Private sector/employment (%)	46.7	48.9	54.1	56.0	58.9	61.6	62.6

^a Percentage change from preceding year.

^b Year average (%).

Source: GUS; J. Bossak (ed.) 1995; *Biuletyn Statystyczny*, various issues.

While the Polish economy currently enjoys strong growth of GDP, consumption, and investment, transition has also levied economic costs. Unemployment soared from insignificant levels in 1989 to its peak of 16.8% of the labor force in February 1994. By the end of 1995, 2.5 million fewer people were working than in 1989¹. In terms of distributional issues, Poland’s GDP growth from 1992 to 1994 had no contribution from agriculture. In terms of gross value,

¹ “Szesc lat rynku”, *Gazeta Wyborcza*, 1 February 1996, p. 14.

agricultural output fell by 9% between 1990 and 1993. Another 10% was lost in 1994². The income effects of shifting relative prices, lower consumer demand and cheaper food imports were aggravated by droughts in 1992 and 1994 and by political resistance to reform of the inefficient, small scale peasant farming sector³. There was a 5% increase in agricultural production in 1995; good weather conditions helped to reverse the poor harvests of previous years.

These examples briefly illustrate that the picture remains a complicated one. This chapter aims to sort out some of the main threads in explaining the dynamics of the standard of living in Poland during the transition.

3.1.2 Overview of the chapter

In estimating standards of living during the transition, data on income and consumption at household level are more descriptive than aggregate indicators, which may also be less reliable during the initial flux of transition. This chapter begins with the changes in the distribution and expenditure of income, and discusses some key problems in using monetary indicators during transition. Then, the focus shifts to changes in material consumption. Because of the recurrent questions of pre- versus post-liberalization consumer welfare, special attention will be paid to comparing consumer behavior before and after the January 1990 “big bang” liberalization of prices and imports. Both sections examine four socioeconomic household types: employees, worker-farmers, farmers, and pensioners. The data comes from the Household Budget surveys (*Budzety Gospodarstw Domowych*), which are conducted annually on the basis of a monthly rotation sample by the Polish Central Statistical Office (*Główny Urząd Statystyczny*)⁴. From 1993, data has been available for households of the self-employed and households maintained from non-income sources, primarily social benefits. It should be stressed that this chapter describes *material* living standards and *economic* welfare. First, however, let us examine the available data on the most fundamental changes in everyday economic conditions.

² J.W. Bossak (ed.), 1995, *Poland: International Economic Report 1994/95*, Warsaw: World Economy Research Institute, Warsaw School of Economics, p. 57.

³ In contrast, while farm production fell by one-tenth in 1994, total production in food processing rose 20% and accounted for 12% of total exports. (*Ibid.*, p. 59).

⁴ Full methodological notes are provided in the annual publication *Budzety Gospodarstw Domowych*.

3.1.3 *Measurement problems*

Nearly every aspect of economic life has undergone drastic change since 1989. Thus it is not surprising that the statistics on incomes and consumption have been prone to measurement problems above and beyond those found in an established market economy. Certain inconsistencies have permitted a manipulation of the interpretation and use of statistical data in public discourse.

Methodological changes

Systemic change demanded a changeover from Net Material Product accounting to Standard National Accounts. Production and consumption behavior changed much more quickly than statistical methods in the first years of reform, so gaps in the data will exist until the statistics record the fullest possible measure of private sector activity. In 1990 there were large differences between aggregate supply figures and consumption data from household budget surveys. For example, Berg (1993) cites that official statistics report that the aggregate supply of butter in Poland fell 16% in 1990, while the same source, the Statistical Yearbook, also indicates that consumption of butter increased by 4%.

GUS warns against comparing aggregate, national accounts figures on private consumption with household survey expenditure data for several methodological reasons. While the macrodata includes social transfers such as rent subsidies in its disposable income data, only the Household Budget survey (HBS) includes transfers or gifts between households. On the consumption side, one main difference seems to concern food expenditure and quantities consumed. While the HBS only covers food consumed at home, the macrodata includes spending and quantities on meals eaten in restaurants, schools, workplace canteens, and so on⁵. There is also an acknowledged non-random error in households' underestimation of alcohol consumption. An examination of the data reveals consistent differences between aggregate and household budget data. For 1993, 6.8% of total aggregate consumption expenditure went to alcohol, but only 1.2% of the average household's spending. There is a consistent underestimation of tobacco and alcohol consumption levels in household

⁵ See the Final Remarks in the Methodological Notes of *Budżety Gospodarstw Domowych w 1994 r.*, Warsaw: GUS, 1995, p. xxxii.

surveys, which will tend to push down these levels. Additionally, aggregate figures for expenditures on alcohol may be increased in relative terms because more of this trade is captured in official statistics than other purchases. Current proportions are similar to those from before 1990; e.g. alcohol accounted for 10.1% of aggregate consumption expenditure versus 2.7% of household survey consumption in 1989⁶.

Representativeness of panel data

Through self-reported income and expenditure records, Household Surveys profile the activities of an "average" household⁷. However, the definition of "average" has been quickly changing. Prior to 1993, household surveys only included state sector employees, employees with farms under one hectare ("worker-farmers"), private farmers, and pensioners. As private sector employment grew dynamically and open unemployment became an established phenomenon, the four socioeconomic groups of the socialist-era Household Budget survey became less representative of Poland's increasing diversity. Górecki and Wisniewski (1995) estimate that 12% of the population was excluded from the surveys by the end of the 1980s. The panel for household budget surveys was widened in 1993 to include self-employed households and those maintained from non-wage income provides a wider view of society.

This second category includes those households in which the main income source is one other than earned income, not including retirement or disability pensions. This covers unemployment benefits, alimony, social benefits, and other unearned incomes such as gifts. The World Bank (1995) survey on poverty concludes that the majority of people in this category are in households affected by unemployment. For simplicity, we may understand the "non-wage income" group to be primarily composed of unemployed people and their dependents. While there may be supplemental sources of income such as from hired work, a farm, or a pension, these may not constitute the largest proportion of total income. The income data suggests that poverty is highly prevalent in this group. It is unfortunate that retrospective data sets for these two groups are not available. Despite this, the

⁶ *Rocznik Statystyczny*, various issues.

⁷ GUS, 1993, *Budżety Gospodarstw Domowych w 1992 r.*, p. xxiii

Household Budget Surveys contain a wide range of information about the income and consumption baskets of several different, clearly defined household types.

3.2 SOURCES AND DISTRIBUTION OF PERSONAL INCOME

3.2.1 *Nominal and real income*

Relative changes in nominal income

Comparisons between the average industrial wage and the average pension, or between the average wage, minimum wage, and income from social benefits can provide useful relative indicators. However, while such nominal data gives a picture of present-day disparities, and real data provides an estimate of different costs of living, comparisons based on monetary values can leave some questions unanswered. Consider, for example, the Figure 3.1, which compares the nominal, net value of the average old-age pension to the average monthly wage in the state sector⁸.

FIGURE 3.1
RELATION OF AVERAGE PENSION TO AVERAGE STATE SECTOR WAGE

From this graph, it is clear that the ratio of the average pension to the average state sector wage has risen. Yet it cannot be deduced from the chart whether this is because of an increase in the real value of pensions or a deterioration of the average wage in the state sector. If the former reason is true, then we can expect that there has been an improvement in the living standard of the average pensioner. If wages have fallen, we still cannot tell whether pensions have risen or fallen in terms of purchasing power. More information is needed to answer these questions. Table 3.2 compares annual indices of nominal growth of pensions and salaries with the consumer price index.

What is the interaction between policy, wages and pensions? As shall be discussed in more depth below, real wages increased to unsustainable levels in 1988. Even in 1989, there were signs of downwards trends in pay. In 1990, a combination

⁸ These figures are taken from the *Wynagrodzenia* (Wages and Salaries) and *Swiadczenia Społeczne* (Social Benefits) sections of the *Rocznik Statystyczny* for 1995 and 1990.

of high inflation, the excess wage tax (*popiwek*), fiscal austerity, and caution in enterprise behavior depressed wages further. Wages held steadily at this low level through the recession and through the first two years of growth. Now, falling unemployment and a competitive labor market, especially amongst skilled workers and the professions, is producing new upwards pressure on wages.

TABLE 3.2

INDICES OF NOMINAL NET PENSIONS, STATE SECTOR WAGES, AND ANNUAL CPI

	1988	1989	1990	1991	1992	1993	1994	1995
Pensions	100	364.2	590.4	196.2	134.9	131.7	136.9	132.0
State sector wages	100	391.8	498.0	170.6	138.9	131.3	133.8	133.9
CPI	100	351.1	685.8	170.3	143.0	135.3	132.2	127.8
Preceding year = 100	Source: <i>Maly Rocznik Statystyczny</i> , 1995, pp. 99, 110 and 132.							

Between 1988 and 1990, nominal pensions increased a cumulative 477%, as compared to a 416% rise in nominal wages and a consumer price index of 436%. In contrast to an approximate 20% fall in real wages, according to these numbers real pensions increased 41%. As mentioned, the first post-communist Mazowiecki, Bielecki and Suchocka governments increased the real value of pensions. This was important because pensions were very low during the socialist regime, but pensioners' consumption was augmented by subsidized social provision of basic goods and services. Since 1990, the cost of living has risen faster for pensioners than other social groups, making higher pensions a humane policy decision. However, the incredibly rapid rise in the number of retirees has caused state pensions to become a serious threat to fiscal balance. In 1991, real pensions rose by another 26% as a result of Labor Minister Kuron's pension reform. In 1995, real pensions increased 3.3%, while real wages grew by a strong 6.1%. The total pension bill has grown from 8.2% of GDP in 1989, to 12.2% in 1991, to 15.8% in 1994 (Golinowska 1996, p. 20). We can conclude from Table 3.2 that the rise in the ratio between pensions and wages reflects the joint effect of an increase in pensions from a very low relative level and the fall and stagnation of real wages until 1995.

While real wages look set to continue rising for the next several years, the SLD has resisted an acceleration in the rate of increase of pensions. Pension revaluations are linked to the consumer price index for pensioners, and not the average industrial wage, for obvious reasons as wages are increasing faster than

prices. The revaluation or adjustment of pensions from 1997 will only happen twice a year, and only once per year if inflation falls below 10%. If policy continues along this vein, it can be expected that the pension/wage ratio will begin to fall again.

Table 3.3 presents average monthly per capita income for the four main socioeconomic groups examined in the official Household Budget Surveys. As shown in the table, since 1990 there have been large shifts in the relative incomes of these groups. In 1989, farmers' per capita incomes were one-third greater than pensioners' and 15% greater than employees' incomes. By 1991, agricultural incomes were the lowest of the four HBS groups. Worker-farmers' per capita incomes fell below those of farmers in 1993, and in 1995 the only group with lower per capita incomes was that of social benefit-dependent households. These unemployed households have the lowest incomes, and by a sizable margin. Households in the self-employed private sector are substantially more affluent than the five other groups.

TABLE 3.3

NOMINAL PER CAPITA INCOMES BY SOCIOECONOMIC GROUP (CURRENT PZL.)

	<i>Employees</i>	<i>Mixed</i>	<i>Farmers</i>	<i>Pensioners</i>	<i>Self-employed</i>	<i>Unemployed</i>
1987	18,730	18,847	21,788	17,339		
1988	33,297	35,046	41,043	28,233		
1989	116,000	124,500	134,500	84,500		
1990	563,000	596,300	577,300	493,400		
1991	979,000	930,200	823,900	945,900		
1992	1,428,300	1,293,600	1,173,300	1,265,800		
1993	1,766,100	1,453,700	1,577,200	1,857,100	2,188,500	953,300
1994	2,346,900	1,945,600	2,051,800	2,458,600	2,976,900	1,258,700
1995	3,012,600	2,608,000	2,823,500	3,196,800	3,861,300	1,558,900

Sources: *Rocznik Statystyczny*, 1993, pp. 222-223; *Biuletyn Statystyczny*, 1995, No. 11 (457), pp. 140-1; *Mały Rocznik Statystyczny*, 1996, p. 134.

What may not have been expected is that from 1993 to 1995, pensioners' per capita incomes exceeded those of employee households, and were second only to self-employed households. This finding is surprising, even considering the higher pension/wage relation, the smaller average household size of pensioners, and the lower average age of the new cohort of early retirees. While these averages do not reflect the extent of income inequality amongst pensioners, they do suggest that the material situation of pensioners has remained in a favorable position relative to other

social groups. If this is true, then it contradicts the conventional wisdom that pensioners in general have fared more poorly than others over the course of transition⁹.

Despite only having statistical data since 1993 on the self-employed and non-wage (or unemployed) households, the intuition that the self-employed private sector and the jobless are the most identifiable winners and losers of transition is justified. The average income in self-employed households exceeds all other panel groups. In 1993, per capita incomes of self-employed households were 24% higher than in employees' households. By the first three quarters of 1995, this gap increased to 30%. These private sector incomes are nearly 2.5 times greater than incomes in unemployed households. Self-employed households are relatively prosperous, even despite the riskiness of starting a small business (again, there is no official income distribution data reported for households) and the acknowledged tendency to underreport true personal income.

There are various estimates of the extent to which the HBS underestimates income levels. Kudrycka (1993) operates on the assumption that the private sector underestimates their income by 80%, and that the unemployed report their incomes as half of their true level. Wisniewski (1996) cites a 1990 GUS survey of small enterprises, in which wages and salaries in companies with fewer than four employees were five times lower than in enterprises with five or more employees¹⁰. The difference between large and small firms is that businesses with more than four employees are legally required to keep accounts. Even so, the relative difference in nominal incomes between self-employed and unemployed households provides a good indicator of income disparities in Polish society.

Price indices and "real" wages

It has been argued that because of Poland's radical reform, real incomes fell by 30 percent between 1989 and 1990, and so average welfare must have fallen by a similarly large proportion¹¹. This claim makes good political ammunition, but its

⁹ Probably this stems from the increasing disparity in pensioners' incomes and the appearance of a group of very poor pensioners.

¹⁰ And these reported incomes were only half of the average state-sector wage.

¹¹ As in Kabaj and Kowalik (1995).

economic reasoning is faulty. “Real” wages rose much too quickly in the late 1980s, growing 42.2 percent between June 1987 and the election month of June 1989 (Berg 1993, GUS data). Rising incomes and a growing budget deficit fueled the expansion of nominal demand, but these higher levels of consumption demand were not matched by increases in supply of consumer goods (Bell and Rostowski 1995). This excess demand led to high levels of both open and repressed inflation. Rather than boosting consumer welfare, aggravated macroeconomic disequilibrium, manifested in shortages, longer queues, and escalating inflation, worsened living standards in pre-reform Poland.

Another problem with measuring welfare through annually calculated changes in wages is that nominal wages are only readjusted periodically to reflect changes in prices. If prices continue to rise over the contract period, then the real value of wages declines *over time*. The year-end change in real wages does not equal the total welfare loss over the year. Let us assume that the annual inflation rate is 30% and that nominal wages are readjusted once per year. At the end of the year, real wages are 30% lower than the beginning of the year. However, the cumulative loss over the course of the year in terms of welfare is only 15%. To illustrate, refer to Figure 3.2 (Dornbusch and Simonsen 1988).

FIGURE 3.2
PAZOS-SIMONSEN MECHANISM

The y-axis shows real wages (wages deflated by the price index), and the x-axis is time. Each vertical dotted line represents the adjustment of the nominal wage, which usually occurs at some regular interval. We can easily imagine that with inflation, the real wage declines until it hits some level which is low enough to cause workers to demand an adjustment to reflect higher costs. With a constant inflation rate of 30%, the real value of the wage decreases from 100 at the beginning of the period to 70 at the end of the period. However, the loss to the wage earner over the period is not 30 but 15, as shown in the shaded area. This finding can happen not only for annual price-wage relations, but it is easy to think of this happening over shorter periods such as a month.

From this concept, we can make a leap to thinking about the contradiction between the messages conveyed by real wage and real consumption levels. As

mentioned, the official statistics show that **real industrial wages fell by about 30% between 1989 and 1990**. However, as shown in Table 3.11 and in the data in subsequent sections of this chapter, **real consumption fell by closer to 15% in the first year of reform**.

This argument that the fall in real wages is equivalent to the fall in welfare assumes that the price index is at least somewhat representative of changes in consumer prices. The standard method for estimating changes in the functional value of money incomes, independent of a general rise in the price level, is to deflate the nominal income by either the consumer price index or purchasing power parity index.

One aspect of the argument over the true impact of the fall in real wages hinges on the accuracy of the deflator. Even in advanced market economies, consumer price indices are unable to capture changes in quality and innovation in the products which are available on the market.

When one tries to compare “real” wages under socialism with those during transition, the problems only multiply. The socialist era retail or consumer price index did not reflect the proper weights or prices of the average consumption basket of goods and services. Shapiro and Grenville (1995) point out several specific distortions in the Soviet RPI. It included neither alcohol nor luxuries such as chocolates. Black market prices were not calculated into the cost of living, although prices in farmers’ markets often were. Prices at delivery, and not at sale were used. As shortages worsened, the RPI failed to reflect (illegal) price markups made by sales clerks in state retail outlets or arising from resale of the goods through private transactions. Additionally, the use of free market dollar exchange rates may not accurately reflect the relation of international to domestic prices, as excess demand will push up the parallel market exchange rate in relation to the size of the monetary overhang.

The liberalization of prices, imports, and exports prompted rapid reactions in relative prices and supplies. Income and substitution effects caused a massive shift in the structure of purchases and consumption in the average household. Relative prices changed rapidly and sometimes drastically. The volume of available goods increased, and new goods came onto the market. Quickly changing consumption patterns undermined the function of the consumer price index, which is to measure the

“variations over time of the price of a fixed basket of goods and services representative of the consumption practices of all households” (Shapiro and Grenville 1995, p. 12). Since the basket of goods is usually updated once each year, the indices will become less representative until their adjustment.

Methodological changes also influence the accuracy of the price index. Socialist price indices normally used a Paasche index, which uses the final period basket and so reflects only price changes. Part of the transition process will be the adoption of the standard Laysperes CPI, which uses a fixed basket of goods based on base period consumption. Even the Laysperes method has its shortcomings. Because it uses fixed weights, it can neglect the “second order effects due to substitution in response to relative weight changes” (Berg 1993, p. 46). The Paasche index reflects the new basket but may miss some of the changes in relative prices. The Laysperes index, on the other hand, may fail to capture actual purchases and overestimate price rises. Neither index can incorporate measures of the variety, quantity, and quality of goods available on the market. Even in advanced market economies, consumer price indices may overestimate the actual rate of inflation by up to one point annually, thus underestimating changes in real incomes. Yet despite the difficulties and inaccuracies of price indices spanning the pre- and post-liberalization economy, even surveys in the *Financial Times* have assumed the accuracy of comparing current real incomes to 1989 levels¹². While the official consumer price index may not provide a completely accurate deflator for comparing living standards before and after the price and trade liberalization in 1990¹³, price indices are not irrelevant and they do tell an interesting story in themselves.

To complicate the picture even further, in-kind payment and special access to shortage goods also undermines the accuracy of real prices as a measure of welfare during transition. Under conditions of consumer good shortages, any distribution of goods through non-market mechanisms, whether in-kind remuneration or privileged access to shortage goods, reduced or devalued the role of wages in consumption. It is difficult to account for these effects. Freeman (1993) notes how the effect of

¹² “Poverty stalks the losers”, *Financial Times*, 18 March 1994.

¹³ Shapiro and Granville (1995) have written on the mysterious formulation of the Russian RPI and CPI from a knowledgeable perspective, and emphasize the distortionary effects of erroneous price indices for indexed contracts and wages.

bonuses and other “add-ons” reduced the percentage of the base wage in total pay. Later on in this chapter, the weight of wage and other sources of income for total household disposable income is considered. However, in-kind benefits probably largely escape these measures.

Given the lack of a purchasing power parity¹⁴, we will use the consumer price indices given in the *Ceny* (Prices) section of the Statistical Yearbook. For determining real incomes for each of the socioeconomic groups, the *Gospodarstwo domowe* (Household Budget) section of the Statistical Yearbook contains overall consumer price indices for each household type and for a limited breakdown of food, non-food goods, and services prices. These may not be perfect estimates, but once we acknowledge the sources of distortion, we can use these figures as our best available figures. In this chapter, the base year of the time series is 1988, a more stable year than 1989.

Given the number of caveats provided about the use of real incomes during the transition, Table 3.4 may be best applied to illustrating trends in average income across social groups. Between 1987 and 1988, there were widening disparities between incomes, with farmers benefiting most. The impact of “shock therapy” in this sphere was a narrowing of income differentials at a lower level. The graphical representation of real incomes by household type in Figure 3.3 demonstrates this effect.

TABLE 3.4

REAL PER CAPITA INCOMES BY SOCIOECONOMIC GROUP (PZN, 1988 PRICES)

	<i>Employees</i>	<i>Worker-Farmers</i>	<i>Farmers</i>	<i>Pensioners</i>
1988	332.97	350.46	410.43	282.33
1989	321.86	351.50	385.61	232.72
1990	238.46	248.64	238.87	195.35
1991	241.64	229.91	201.36	218.63
1992	246.19	228.22	204.97	202.75
1993	225.16	190.11	205.31	219.36
1994	225.98	194.08	204.83	218.36
1995	226.45	205.33	222.64	222.16
1988/1991	-28%	-35%	-51%	-18%
1990/1994	-5%	-22%	-14%	12%

Note: Deflated by official consumer price index. Source: Author's calculations from GUS data.

¹⁴ The OECD now publishes purchasing power parities for Poland in their *Short Term Economic Indicators* series.

Each socioeconomic group was affected by adjustment in statistically real incomes. Agricultural households which had the steepest income rises in the late 1980s sustained the sharpest falls in real income during 1990. For workers and pensioners, the situation has stabilized since the “big bang”, and the average wage rose by about 5% on 1996. Pensioners entered transition with the lowest average nominal and real income level, but sustained the lowest decline in 1990. In contrast, farming incomes continued to fall between 1990 and 1991, and at present are only greater than incomes in households reliant upon social benefits. If we take changes in real incomes as simply an indicator of relative positions, transition ended the privileged position of farmers, but has improved the situation of pensioners.

FIGURE 3.3
COMPARISON OF REAL PER CAPITA INCOME BY HOUSEHOLD TYPE

If we accept that the nominal value of the monetary overhang was in the vicinity of between 20% and 30% of GDP, then there may not have been that much of an overshoot in the total monetary contraction. Unfortunately, even if there had been forced savings prior to January 1990, at household level this reform was experienced as a crunch in disposable income and a loss of considerable stocks of savings.

The greatest impact occurred in 1990, and in general did not lead to a long term slide in incomes. The adjustment related to repressed inflation occurred in the first year of transition; further income changes should be attributed to other causation, whether shifts in terms of trade, collapse of the CMEA, drought, eligibility criteria and indexation of pensions, etc. Five years on, the situation is very different: workers' wages are recovering and rising in real terms, but average per capita incomes in agriculture are now lower than all but those maintained by social benefits, despite protection of the domestic market through the imposition of import tariffs on agricultural goods and guaranteed minimum price intervention mechanisms (both enacted in 1994). For pensioners, real incomes — as measured by official price indices for retired households — were 12% higher in 1994 than in 1990, despite a relatively higher increase in the cost of living for this group. In 1994, prices for

retirees were 112 times greater than in 1988, as compared to 104 times for employees and 100 times for farmers and worker-farmers.

3.2.2 *Sources of incomes*

This section asks whether the transition has prompted a change in how households earn or receive their income. Official statistics provide a breakdown of income sources into income from hired work, social benefits (including pensions and disability benefits), income from private farms (including allotments) and, since 1993, income from self-employment. Self-employment covers income from activities such as repairing one's own house as well as paid labor. "Other" incomes can come from gifts, alimony, capital gains, sale of real estate, and other sources not from employment or social benefits. Providing the sum of all household incomes is useful, as the majority of families have more than one income source. In 1992, 46% of household relied on one major source of income, but 42% relied on two sources, and 12% on three¹⁵. In other words, many people are no longer relying, or able to rely, on one income. Supplementing the main income source through casual labor, self-production, and cash transfers has become commonplace.

One characteristic of the socialist economy was that wages and salaries were very reliable sources of income. Even negligent workers ran little risk of being fired. If an employee left his or her job, labor hoarding meant that even with high turnover rates, the probability of finding another job was high. Institutionalization of wage bonuses further reduced the unpredictability of net income. As mentioned, the emphasis on subsidized, collective consumption of basic goods and services and payment in kind provided an important source of non-monetary income, especially for low income households. Also, income from capital (e.g. interest on savings accounts, certificates of deposit, and other financial instruments as well as portfolio investment) was unimportant in the socialist economy, thus minimizing disparities at the upper end of the income scale. One change which would be expected to emerge during transition is increased uncertainty and variation in income.

¹⁵ Beskid et al., 1995, p. 21.

Because of the nature of economic transformation, we would expect to see a growing proportion of income coming from private sector activity. This would not only include entrepreneurs, but also employees in privatized and *de novo* private sector firms. In 1993, official statistics were changed to include wages from work in the state and private sector under the category of income from hired work. The lack of differentiation between employees in state and private firms unfortunately obscures an interesting comparison.

TABLE 3.5

VARIATION IN SOURCES OF INCOME (1987-94)

	<i>Employees</i>	<i>Worker-farmers</i>	<i>Farmers</i>	<i>Pensioners</i>
Hired work	.1543	.2416	.2704	.2190
Own farm	.1940	.3642	.5300	.1604
Social benefits	.2131	.1525	.1864	.1901
Other	.9521	1.2162	1.4669	1.1008

Variation equals standard deviation/mean.

Source: Author's calculations from GUS data.

Table 3.5 shows results for variation in the real value of per capita income. As a measure of risk, variation illustrates the degree of uncertainty in households' sources of income. The revision of statistical techniques in 1993 resulted in an increase in other incomes, and in the available numbers, "other" incomes have the greatest variation of all income sources.

The greatest uncertainty comes from farming income. Private farmers have experienced the greatest real flux in income, and most of this downwards. Households of worker-farmers have had less variation in agricultural income than peasant farmers, but a greater variation in income from hired work than employee households. Pensioners and employees have much more constant real income.

TABLE 3.6

SOURCES OF INCOME (AS % OF TOTAL MONTHLY PER CAPITA INCOME)

As shown in Table 3.6, the share of wages in total income increased as real wages rose in 1988, perhaps because of a reduced need to earn extra, outside money.

Wages contributed a steady proportion of falling total income in worker-farmer households, with farming income accounting for a substantially smaller part of total income. The number of people working on the land in mixed households decreased,

but the number of those in employment remained fairly constant. Even though average nominal wages grew below the rate of inflation, these incomes were still more stable than the returns from agriculture, particularly on smallholdings.

Another trend is the increase of social benefits in total per capita income. Decentralization of the government's economic activities included a reorientation in social policy from subsidization of consumption and production to the use of direct money transfers to targeted individuals. One implication of this change is the shifting of the location of political rents under the old and new systems as the form of state spending and its recipients is altered.

From 1990 to 1991, social service expenditure fell 22.8% and education spending by 26.3%, but transfer payments rose by 17%, illness payments by 42.3% and retirement pensions rose 30.9% in real terms (Slay 1994, p. 113). The share of benefits in employees' income peaked in 1991 at 17%, but has decreased thereafter (see Table 2.6). Lower income workers are more dependent upon social assistance (32.5% of total income for those earning under 600,000 zł. per month in 1992) than those in higher income brackets (11.2% for those earning between 2.2 million and 2.7 million zł.). For farmers, the proportion of income from farming declined more than 15% since 1989, and dependence on social benefits has risen considerably. From a low 8% of total income in 1989, 22% of farmers' 1994 income came from social transfers. Because farmers' total real incomes continued to fall across the first five years of transition, benefits made up an increasingly important share of shrinking total income. A similar pattern is observable in worker-farmer families.

Except for self-employed households, it is striking how very little income is reported to come from individual, entrepreneurial activity. This may be due to underreporting, as mentioned earlier. If, as Rostowski (1993) estimates, the private sector accounted for nearly half of money income in the socialist economy, and if the second economy accounts for about 25% of GDP now, the figures given in the Statistical Yearbook could be severely prejudiced. In a 1994 survey, 17.2% of respondents stated that they had worked *na czarno*, or in the second economy.¹⁶ Even including the participation of unemployed people, manual workers and urban residents account for the majority of those working outside of the law. The Gdansk-

¹⁶ "Polak oszukuje [The Pole Cheats]", *Polityka*, 8 November 1994.

based Institute for Market Economics estimated that one in three Poles worked in casual jobs, earning each average household 1.6 million zloty per month in 1994 (Grabowski 1995).

Pensioners continue to be primarily dependent upon social benefits for their main income source. Hired work has decreased slightly in relative weight, as well as income from self-production on allotments.

Self-employed households earn about 70-75% of their income from private sector activities. Another 10% of total disposable income comes from paid employment. Self-employed households have the least reliance upon social benefits, but these still contribute one-tenth of total income. Depending upon the distribution of income amongst the self-employed, this figure may indicate a need for more precise targeting of social benefits.

The differentiation between income from social benefits and other incomes in households maintained by "unearned incomes" can indicate whether unemployment is prevalent in this group. For this last group, in 1993 half of total household income came from social benefits, and another 43% from other sources. In 1994-95, other sources have waned to about one-quarter of total income. While it appears that many non-wage households are unemployed, the importance of "other" incomes suggests that one-parent families are also present. This interpretation is reinforced by data on the composition of the average family in this category. About half of benefit recipients receive unemployment benefits as their main source of income; yet only a minority of the registered unemployed actually receive unemployment benefits. There are fewer income earners in this group, more dependents but fewer consumption units, indicating more children. More than any other group, the near absence of any income from self-employment implies that there are very limited opportunities for this group to start up any kind of small business. One-fifth of these households' incomes comes from paid work. Given the low nominal level of total income, it could be concluded that part-time and casual labor accounts for much of this. This is probably where we would find the lower end of new private sector jobs, typically low skill, service sector jobs held by women.

3.2.3 *Income distribution*

By its very nature, the question of income distribution is political in that it concerns who gets what. Distribution (and redistribution) remain at the core of competitive politics in advanced democracies. Because income distribution can be such an emotive issue, one possible source of misinterpretation comes from the assumption that what are essentially positive figures contain normative judgments that equality is good and inequality bad. Rawl's (1972) difference principle has influenced much thought on income distribution, in distinguishing whether a change in income distribution (and the system in which it exists) is just. Put very simply, a welfare improvement occurs if an increase in income in the upper deciles does not cause a deterioration in the lower deciles. A Pareto improvement, where an increase in total welfare occurs with any increase in income regardless of the effect on shares in total income. However, Rawl's theory defines a morally "just" economic system as one where gains in the upper deciles do not come at the expense of the lower deciles; change is allowed in relative but not in absolute terms.

Because of the role of egalitarian policies under communism, income equality and inequality remain politically charged issues in the transition countries. Income equality was one of the primary goals of socialism, and one of the most successful in making the transition from propaganda slogan to reality, even if incomes were equitably distributed at low rather than high levels. Incomes were determined by political priorities and bureaucratic actions, rather than by market forces. The income parity policy leveled wages across sectors, skill levels, and seniority. The pension system was mandatory, and although pension payments were rather low, they were an income source guaranteed to most retirees. The tendency to hoard labor decreased the risk and income effects of changing jobs. Production bonuses in industrial enterprises became more or less automatic and thus more a more predictable income source. One of the most important policy instruments behind economic parity was not just wage policy but also the subsidization of consumption. As the link between money incomes and consumption was weakened by shortages, it was also loosened by in-kind transfers and "collective consumption" for such goods as education, cheap transport and housing, and subsidized food prices.

Yet in contrast to the rhetoric of equality of distribution, the actual operation of the shortage economy and political system of *nomenklatura* meant that the distribution of goods was based on one's position in the political hierarchy. Distribution, then, was not a function of either income or impersonal rationing, but of politics.

Wage and income policies under socialism

The costs of economic transition have been predominantly caused by a removal or reversal of distortions characteristic of the socialist system. Three of the most important of these include: a highly egalitarian wage structure, an excess demand for labor, and the breakdown of any mechanism linking pay to productivity¹⁷.

Under socialism, wage differentials were narrow, across industries and between blue and white collar jobs. In 1980, the ratio of wages for white collar and blue collar jobs was 1.05 in Poland, 1.13 in Hungary, as compared to an average of 1.44 for four West European countries (Redor 1992, p. 5). Favored industries, such as mining, received higher incomes and pensions. Miners also received more generous benefits than other industrial workers. Freeman (1993) estimates that only a quarter of coal miners' monthly pay came from the basic wage.

The socialist resistance to open unemployment led to the development of the policy of full employment. The "soft budget constraint" (Kornai 1993) meant that firms' wage bills were not limited by financial constraints. The guarantee to work became a legally enforceable obligation. Wages were low, but job security was high. The high ratio of vacancies to job searchers meant that people could change jobs frequently with little risk. This was despite official attempts to reduce turnover. Furthermore, administratively set wages and overemployment undermined labor discipline and productivity. Pay had little if any relation to actual work completed.

After the disastrous accumulation of debt through external borrowing, the fiscal consequences of wage indiscipline on the part of the government was probably the most important contributing factor to the economic crisis of the late 1980s. While the Polish government was able to resist demands for wage rises after the 1981 imposition of martial law, this discipline began to erode within the year (Milanovic

¹⁷ See also Freeman (1993).

1993). Pay increases in strategic sectors like mining pushed up wages in other industries, regardless of productivity or profitability. The indexation of budget sector pay and benefits to the average industrial wage caused a further acceleration of aggregate demand. The PZPR's attempts to use selective wage rises to quell industrial unrest eventually resulted in a chain reaction of pay rises throughout the economy.

Renewed wage moderation in 1986-87 soon gave way under an intensified wave of strikes and political protests. As mentioned earlier, the resulting increase in consumer demand in 1986-89 was not matched by a corresponding increase in the supplies of consumer goods. Unable to grant substantive improvements in material living standards -- the litmus test of the post-Gomulka legitimacy -- the party tried to appease workers with even greater pay packets. In the first quarter of 1988, attempts to rectify the growing economic disequilibrium through price increases in state-regulated rents, fuel and heating costs led to massive strike action. The government characteristically responded with compensatory wage rises (Slay 1994, p. 69).

During the 1980s, income parity between industrial and agricultural sectors was promoted. Agriculture is traditionally the most deprived sector in an economy, so the linkage of agricultural incomes to the average industrial wage reflected the importance the communists placed on maintaining at least the implicit support of independent farmers. A massive system of producer and consumer price subsidies held purchasing prices for food high, and retail prices low. The parity income ratio for the agricultural population was particularly high during the crisis years, 1980-81 and 1988-89. Even despite strong growth in state sector wages between 1982 and 1987, the average agricultural income in 1985 was 12-15% higher than for public employees. This strong growth in average agricultural incomes was in reality being more unevenly distributed. By 1989, average agricultural incomes fell below those of workers and worker-farmers. In 1990, a disadvantageous fall in the terms of trade for farmers contributed to the 50% fall in real wages.

As discussed earlier, one fact worth noting is that before 1985, pensions were historically quite low. This was partially redressed by a relative rise in 1985 and 1986, but pensions were initially at a low nominal level. The ratio between pensioners' and workers' incomes narrowed from 85% in 1985 to an even higher proportion of 92.5%

in 1988. Income growth did not keep pace with inflation nor with income increases in other sectors; pensioners' incomes fell to 84.8% of workers' earnings.

Income distribution during the transition

The transition from socialism to a market economy will inevitably lead to a widening in income disparities. A functioning market economy requires the incentive of higher pay to extract greater effort and reward valuable skills. Increasing income inequality will also come from the development of new sources of non-wage income, particular from investments and financial instruments. More people will hold second jobs, either out of need or preference. With price and trade liberalization, incomes became more closely linked to consumption possibilities. While there are undoubtedly many benefits to rewarding skills and effort, higher unemployment rates and greater wage flexibility pushed some households into poverty. With the elimination of politically motivated pay scales, unskilled and manual industrial workers will find their formerly favored positions under attack by the forces of efficiency and labor demand. Many people accept that individual initiative and skill should be rewarded, but there is a resistance to wage deterioration at the lower ends of the scale.

It is not difficult to imagine how market conditions, the push for profitability, and hard budget constraints would change the distribution of income. In state-owned enterprises, wages were largely unrelated to profitability before 1990. Yet even before the end of the first year of transition, the correlation between higher wages and profitability was stronger (Schaffer 1991). Liberalization of economic activity expanded the possibilities for skilled and educated individuals to choose from a range of more lucrative employment. Those able to amass a little initial capital were able to make windfall gains during the early stages of transition. But not all were winners from the new labor market.

Enterprise restructuring led not only to the emergence of open unemployment but also to a massive rise in early retirements¹⁸. Both are popularly assumed to have resulted in lower incomes, but we have already seen that the unemployed have experienced a much more drastic fall in personal income than have pensioners. There has been a widening of the distribution of income amongst pensioners, but this has

¹⁸ Refer to the next chapter for more on the costs of unemployment in Poland.

been to the advantage of the middle deciles rather than the highest groups. While middle-income pensioners, and the majority of pensioners overall, have done fairly well during transition, concern should be given to the situation of those very poor pensioners, who tend to be older and widows. The *Rocznik Statystyczny* only provides decile income distributions through to 1992, but based on the trends from 1990-92, poverty has risen for the lower three deciles of pensioners. It would also appear that the middle and upper deciles are doing as well if not substantially better than in the late 1980s. It is possible that the new pensioners are doing better than the pre-1989 pensioners. This may not only be because of the inflating away of the base for longer term pensions, but also because younger retirees are closer to the labor market and more able to find alternative income sources. Unfortunately, pension benefits are not broken down by age and benefit amount.

Measures of income distribution

Two sets of decile tables are available for Poland. The first covers average wages and salaries for decile groups by sector of state employment, excluding the military and (until 1990) party functionaries. The second set of decile tables was included in the Household Survey section of the Statistical Yearbook until 1992. These tables present percentages of total household income by deciles for state employee households, state employees with farms, agricultural households, and pensioners. It incorporates all household income sources, and not just payment for employment.

Instead of using the Gini coefficient (which measures the extent to which the distribution of incomes deviates from total equity) to measure inequality, official Polish statistics used the Pietra ratio. This is the coefficient of deviation, equal to half the mean deviation divided by the mean. Graphically, where the Gini coefficient is equal to the area between the Lorenz curve and the line of equal distribution, the Pietra ratio is equal to the maximum distance between the Lorenz curve and the line of absolute income equality. This "Robin Hood Index" estimates the share of total income which would have to be taken from those with incomes above the mean and redistributed to those below the mean to bring about equal income distribution¹⁹.

¹⁹ Atkinson and Micklewright (1991) give a good discussion of income distribution statistics (pp. 44 ff).

Atkinson and Micklewright (1991) provide five factors which influenced the highly even dispersion of incomes (and particularly for workers) which characterized the late planned economy in Poland. Income inequality was constrained by the high level of job mobility and the frequency of voluntary resignations, by the restrictions on geographical labor mobility resulting from the endemic housing shortage, the dominance of large enterprises in the economy, officially legislated minimum wages and equal wages for men and women, and by the statutory right to work and the primacy of the goal of full employment. However, it can be noted that income distribution patterns in Poland under socialism were so not very different to those found in market economies. While the Gini coefficient for all social groups in Poland in 1980 was 0.23, in the United Kingdom in 1989 the Gini was also 0.23 and in the United States 0.33 (Redor 1992, p. 56). The real difference between the western and eastern markets comes through the distribution of wealth rather than income; opportunities for wealth creation were of course much more limited in the socialist economies.

Workers traditionally displayed a highly equitable income distribution, but over the transition it became increasingly polarized. While in 1988 the Gini coefficient was 0.24, it rose to 0.26 in 1991. The lower six deciles lost income shares, and the upper four increased the gap. This polarization occurred to the detriment of the middle deciles. This is also shown in the increasing ratio of the average incomes in the highest and lowest decile groups (Table 3.8). Greater variation in state sector wages may reflect the imposition of hard budget constraints on enterprises, reward for skill levels, and the growing gap between profitable and loss-making state enterprises' ability to award pay rises.

TABLE 3.7
GINI COEFFICIENTS FOR MAIN SOCIOECONOMIC GROUPS

	1987	1988	1989	1990	1991
State employees	0.25	0.24	0.25	0.26	0.26
Worker-farmers	0.24	0.24	0.25	0.25	0.23
Farmers	0.34	0.34	0.36	0.34	0.31
Pensioners	0.20	0.20	0.22	0.20	0.22

Source: Górecki (1994).

The number of people employed in the average worker's household has been fairly consistent, with 1.51 employed in 1991, 1.50 in 1992 and 1.54 in 1993, but this follows the pattern of change in household size. Other research has emphasized the growing numbers of working urban poor (Milanovic 1993). While data on unemployed and self-employed households were first published for the year 1993, the current statistical yearbooks no longer include decile groups for HBS groups. This is unfortunate, because this could have redressed the earlier exclusion which mitigated the degree of disparities in income and consumption.

TABLE 3.8

RATIO OF INCOME IN HIGHEST AND LOWEST DECILE GROUPS (D10/D1)

	1988	1989	1990	1991	1992
Employees	4.13	4.63	5.02	4.93	5.17
Worker-farmers	4.67	4.79	4.74	4.26	3.73
Farmers	9.16	11.13	8.47	7.00	6.75
Pensioners	4.23	4.51	4.43	5.05	5.54

Source: *Rocznik Statystyczny*, various issues.

Inequality fell in worker-farmer households, with a Gini coefficient of 0.24 in 1988 reduced slightly to 0.23 in 1991. The pattern is similar to that for employees, with a relatively high proportion of households in the lower deciles. However, like private farmers, the distribution became less polarized, and as of 1992 displayed the lowest inequality indices. The gap between the highest and lowest incomes fell in worker-farmer and agricultural households. I suspect, however, that for both groups this indicates the widespread loss of real income. The number of people in the average worker-farmer household is growing, from 4.72 in 1991 to 4.88 in 1993, but the number of people earning income has fallen. While the average worker-farmer household had 2.55 people employed in 1991, this dropped to 2.33 in 1993. While the number for those working outside agriculture is fairly steady (1.35 to 1.32), a greater fall, from 1.2 in 1991 to 1.0 in 1993, was measured for people working on their own farm.

In 1988, private farmers had the most unequal income dispersion of the four Household Survey groups. Between 1988 and 1991, the Gini coefficient fell from 0.34 to 0.31. As Kudrycka (1993) points out, in spite of having received the highest average incomes, more than twenty percent of the farming population had incomes

below the first decile. Farmers were twice as likely than workers to be in this lowest income class²⁰. Since 1990, agricultural incomes have become more equally distributed. However, this happened within the context of falling real income. More equitable figures are usually characteristic of sharp falls in real income. The lower Gini coefficient does not reflect higher incomes for poorer peasants, but greater decreases in total income for richer farmers. One recurring theme of this chapter is that the scale of losses sustained by farmers is second only to the welfare losses of the unemployed.

Income disparities lessened amongst pensioner households, but the distance between the lowest and highest deciles has widened. The Gini coefficient rose from 0.20 in 1988 to 0.22 in 1991. The middle deciles received a greater share of income than the same decile groups in other household types. While the middle decile groups retained their share of total income through the early years of transition, the indices rose because the shares received by the lowest three to four deciles declined and those of the upper three deciles increased.

3.2.4 Conclusions on income data

As with real wages, total disposable income fell about 30% in 1990. For employees and pensioners, the real value of incomes stabilized afterwards, and wages have begun to rise. The continued decline in farming incomes is very important, not only for political reasons but also because of the welfare effects for rural areas.

However, the second part of this chapter delivers a different signal about the depth of the transitional recession. It presents a descriptive analysis of changes in patterns of private consumption, from the angles of distribution of consumption expenditure and quantitative measures of consumption of food, durable goods, and essential services. Combined with the subsequent section on demographic data, I will show how this data on deflated incomes does not capture all of the intricacies and many of the positive outcomes of Poland's economic transition.

²⁰ Kudrycka (1992), p. 152.

3.3 CHANGES IN CONSUMPTION BEHAVIOR

The combined effects on prices and incomes experienced in the transition economy have led to a complex adjustment of consumer behavior. We will first look at changes in relative prices for the main commodity groups and consider how these shifts reflect both the pre-transition disequilibrium and current demand. Then, we will examine changes in consumption by expenditure and in quantities of food and durable goods for each of the HBS socioeconomic groups. The data presents a rich but complicated picture of changing material conditions. The paradox is that the measured fall in real income from 1989 to 1990, outlined in the previous section, did not cause equally large drops in consumption. In fact, there has been a huge accumulation of durable goods, including cars and home electronics, across socioeconomic and income groups. Moreover, this reorientation of expenditure has not been at the cost of a greatly reduced consumption of food. To the contrary, present consumption patterns resembles what would be expected from an *increase* in income. Consumption of inferior foods has fallen slightly, while previously scarce foods such as fruit and vegetables are being consumed in greater quantities. Our conclusion from consumption data is that changes in statistically “real” income from 1989 to 1990 and after exaggerate the changes in material standards of living.

3.3.1 *The role of relative prices*²¹

The socialist economy subsidized the production and consumption of consumer goods. Sometimes, as in the case of pharmaceuticals, the price did not even cover the cost of production. Other prices, such as for housing rental, were held below market clearing levels. Failure to produce enough durable goods pushed demand onto other markets, most notably increasing demand for food. Administrative price controls on food led to worsening shortages as the macroeconomic disequilibrium worsened in the late 1980s.

The conventional wisdom is that food prices were held far below market prices in the socialist economy. Podkaminer (1987) argued that the observed excess

²¹ This section draws from Bell and Rostowski (1995).

demand for food was not caused by food prices that were too low, but rather by keeping administered prices of very scarce durable goods and services below their equilibrium prices. Furthermore, he contradicted conventional wisdom in stating that food prices had not been at abnormally low levels throughout the 1970s and 1980s. To the contrary, he argues that official food prices prior to 1989 were higher than their equilibrium prices. Therefore, the policy of reducing excess demand by increasing food prices was wrong. What needed to be done was to increase the supplies and prices of durable goods and consumer services. This would reduce the demand for food, and clear markets with higher non-food and services prices and (relatively) lower food prices. If this hypothesis was correct, then upon liberalization of prices and trade in Poland, there should have been a surge in the consumption of, as well as relative aggregate prices for, non-food goods and services.

One of the agreements arising from the Roundtable talks was that subsidization of food prices should be gradually reduced during 1990; in other words, food prices would be allowed to gradually rise to market clearing levels. There would be some price controls for agricultural inputs, and a system of minimum price guarantees would be put in place. However, one of the last policy actions of the defeated communist government was to liberalize food prices completely in August 1989. At this time, only 35% of the volume of consumer good sales were at liberalized prices (Iwanek and Ordovery, 1993, p. 158). Knock-on effects from consumer prices to indexed wages pushed Poland into a cost-push spiral. By December 1989, Poland was poised on the edge of hyperinflation.

TABLE 3.9

CUMULATIVE PRICE INDICES (1984 = 1.00)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
CPI	1.143	1.345	1.684	2.698	9.474	64.97	110.6	158.2	214.1	282.8
Food	1.157	1.326	1.614	2.411	10.13	68.33	99.83	136.7	182.6	242.7
Non-food	1.168	1.403	1.760	2.910	9.507	65.71	111.5	157.7	215.7	283.4
Services	1.226	1.464	1.916	3.133	8.487	74.75	173.0	290.0	400.5	530.7

Source: Bell and Rostowski (1995), author's calculations from GUS data.

Overall, food prices have risen by slightly less than the CPI, and by less than price increases for non-food goods and services. From 1985 to 1994, there is a 17% shift in the prices of non-food prices relative to food. This would suggest that food

was not underpriced before 1990, contrary to what was commonly thought. Since liberalization, food prices have risen at levels slightly below CPI and prices for non-food goods. This is consistent with Podkaminer's general thesis. However, this relation is overshadowed by one effect which Podkaminer underemphasized, which is the excessively low price of services. By 1994, services prices rose 119% relative to food.

Table 3.9 presents this section's first substantial piece of evidence regarding the strength of income effects on consumption behavior. According to the official statistics, there has been a sizable fall in real incomes and a somewhat lesser fall in real consumption. This should have *increased* the demand for food as an inferior good, given Engel's law. However, the price indices point to a much stronger effect from the historic socialist bias against services, where productive resources were directed away from the sector through a combination of price controls, limits on entrepreneurial activity, and a system of extensive agricultural and industrial subsidies.

This table suggests that the post-liberalization equilibrium was reached through greater consumption of durable goods and especially services at higher prices, and a lower relative price for foodstuffs at a slightly lower level of output. Through the price mechanism, we can see the foundations for a post-liberalization substitution effect. We can also see the basic reasons for rural opposition to marketization, as there is lower demand for agricultural produce, which is sold at relatively lower prices.

Price indices can also be used to estimate shifts in demand for different goods within aggregate categories such as food, housing, and clothing. J. Gomulka (1995) calculated nine price subindices by aggregating price indices for 252 categories of goods, using data obtained directly from GUS for the years 1989-1991. These are compiled into monthly and then quarterly tables. Gomulka presents Laysperes (last period quantity weights) and Paasche (first period quantity weights) indices. She finds that there are striking changes between the relative prices and consumption of different products in the consumption basket of one index. Price and quantity shifts were especially prominent across different kinds of food. In addition, energy prices rose at twice the overall price index.

3.3.2 Household savings

The nature or motivation behind savings is assumed to be different before and after the commencement of marketization. A disequilibrium approach views the high rates of savings during the latter years of socialism in Poland as evidence of excess demand. Because nominal incomes were greater than the stock of goods available at administered prices and quantities (leaving aside the effects of the black market at present), the stock of savings constituted a monetary overhang. So, savings rates which exceeded the desired level constituted forced savings, or frustrated consumption demand.

Another factor behind high savings rates under socialism was the high transaction demand for cash. Individuals' holdings of considerable sums of currency were used either to finance large purchases in the absence of household credits or to cover search costs. When goods are scarce, people often carry large amounts of cash so that when desired goods are available, people can purchase sufficient stocks for present and future consumption, until the next supply becomes available. Like enterprises, households also accumulate inventories of goods under supply constraints. Large ticket items like automobiles also had to be paid in cash, and can also account for a proportion of the stock of savings. As inflation accelerated from 1987, people had to dedicate a larger proportion of income to maintain the real value of savings. This is especially true when real interest rates on deposits were negative.

The economic analysis of savings in a shortage economy with repressed inflation considers the real value of money stocks to be much less than their nominal value²². As there is a shortfall of goods and services on which the consumer can spend his money, the stock of savings does not equal purchasing power at state administered, official prices which are below the market clearing rate. This artificially high rate and stock of savings does not increase utility because it is not convertible into consumption at official prices. One of the functions of price liberalization is to increase the aggregate price level. The stock of savings is deflated away, and prices rise to equilibrate the nominal aggregate values of product and income.

²² For a description of how wage increases transfer into monetary overhang, see Sections 2.2-2.4 of R. Sahay and C.A. Végh, 1995, "Inflation and Stabilization in Transition Economies: An Analytical Interpretation of the Evidence", *The Journal of Policy Reform*, Vol. 1, No. 1. pp. 75-108.

However, it would be difficult to argue that consumers perceived the value of their savings at their real and not the nominal level. I would argue that people understood the real value of their savings to equal potential consumption at administered prices without supply constraints. The inflating away of savings represented a loss of theoretical purchasing power, but conceptually quite real levels for consumers. If this were not the case, people would have been indifferent between buying goods at state prices after queuing or buying them at black market prices. If we can take an example from present-day Russia, both President Yeltsin and Communist Party leader Gennadi Zyuganov have endorsed programs to compensate people for savings eroded by inflation²³, presumably referring to savings before the January 1992 price liberalization.

The Polish stabilization program was based on interest rate and exchange rate anchors, as well as the *popiwek* (PPWW) excess wage tax. The IMF plan aimed to reduce real net domestic assets by 28% for the first six months of 1990 and 24% for the year as a whole. From 1989 to 1990, the real value of the stock of the population's savings deposits fell 30%²⁴. While the money supply had rocketed in 1989, as did money incomes, the 1990 program curbed real income growth to less than the rate of inflation and reduced the real value of money stocks in the deflationary squeeze. Positive interest rates for deposits were introduced as part of the stabilization program.

The wealth effect of exchange rate unification must be balanced between the effects of the decrease in real income for domestically produced goods (notably food) and the wealth effect brought about from the real appreciation of the exchange rate. The increase in the dollar value of wages in relation to the pre-unification parallel rate constitutes a wealth effect on the consumption side, as the zloty price of imports are reduced and the purchasing power of the domestic currency raised. Milanovic (1993, p. 22) notes that this wealth effect occurred in stabilization programs in Latin America and Eastern Europe alike. The zloty was devalued in January 1990, and pegged at a rate of 9,500 PZL/\$ for nearly a year and a half. While the real zloty value of foreign exchange money holdings of the population fell by half from 1989 to 1990, the value

²³ *OMRI Daily Digest*, Part I, No. 55, 18 March 1996.

²⁴ *Rocznik Statystyczny*, 1992, table 25(248), p. 149.

of these savings in dollar terms rose from \$4.2 billion to \$5.7 billion -- a rise of 35.7 percent (Milanovic 1993, p. 24). By 1994, total zloty personal deposits held with banks grew by 4.9 percent, 83 percent of which were held in time deposits, most of which have a maturity of one year or less²⁵. In 1993 and 1994, these zloty savings have remained within 7 percent of their real value at end-1992.

In a market economy, the basic consumption function shows that savings are perhaps the ultimate luxury. Savings can represent investments for the future or deferred consumption. Under higher inflation rates, it may appear paradoxical that more and more money must be saved in nominal terms in order to maintain a constant, real level of liquidity. One of the reasons for disenchantment with reform could be this perceived wealth effect, where people's security in a cushion of savings was inflated away.

TABLE 3.10

SAVINGS RATES (% MONTHLY NOMINAL INCOME PER CAPITA)

	<i>Employees</i>	<i>Worker- Farmers</i>	<i>Farmers</i>	<i>Pensioners</i>	<i>Self- employed</i>	<i>Unemployed</i>
1987	13.4%	22.7%	22.1%	6.0%		
1988	17.2%	30.1%	26.9%	5.7%		
1989	19.6%	30.5%	22.2%	1.9%		
1990	13.2%	23.8%	11.8%	1.5%		
1991	10.1%	21.1%	8.0%	2.4%		
1992	13.6%	23.0%	11.8%	-0.6%		
1993	4.9%	4.5%	3.9%	-2.2%	1.1%	-12.3%
1994	7.6%	5.8%	9.1%	0.6%	4.4%	-6.5%
1995	8.9%	14.5%	16.9%	2.8%	7.0%	-7.1%

Source: *Rocznik Statystyczny*, 1993, p. 222-23; *Biuletyn Statystyczny*, No. 11(457), p. 142-43.

Severe macroeconomic disequilibrium was corrected through an increase in the aggregate price level, which reduced the real value of the stock of savings. Positive interest rates on deposits were introduced to provide an incentive for individuals to save with the banking sector. So, as the figures cited above show, there was a dramatic reduction in the value of the stock of savings, with a gradual rebuilding as the economy recovers.

Given that the concern of this chapter is with changes in the material and financial situation of households, the ability to save can also reflect economic well-

²⁵ National Bank of Poland, 1994, *Information Bulletin*, p. 71.

being. The savings rate for Household Budget Survey panel groups, as shown in Table 3.10, can be derived by subtracting figures for monthly per capita expenditure from income. However, any attempt to use official data to construct a time series on savings is impeded by methodological changes put in place for the presentation of 1993 data. First of all, the methodological notes in the 1994 statistical yearbook indicate that the calculation of total household income has been changed to include imputed income from work done in one's own household (such as renovations, car repairs, etc.) to be included in the totals for income. Another problem is that the Household Survey section of the yearbook does not include figures for per capita income in different household groups, nor is information on decile groups given. Only breakdowns of income by source are provided. Another change is that on the expenditures side, the post-1993 data includes more specific calculations of "social consumption", including the imputed cost covered by subsidies such as assistance with rental payments and cheaper transport fares.

The data on savings rates for 1993 in Table 3.10 is based on figures from the *Biuletyn Statystyczny*. To ensure that the data is consistent in the bulletins and yearbooks, I checked income and expenditure data for 1992 from the yearbook with that in *Biuletyn Statystyczny* (No. 10 (432), pp. 120-121), and it matched. So, we have to conclude that the change between 1992 and 1993 is the result of methodological changes. The fall in the savings rate across these two years indicates that the benefit gained from self-production is less than that from socially subsidized consumption and other factors included in expenditure data from 1993.

Examining the changes in savings rates from 1987 to 1992, we may note the very high level of savings in 1988-89. In 1989, employees saved a massive 20 percent of per capita income, worker-farmers saved 30 percent, and farmers 22 percent. However, there were few investment options for households apart from dollarization and deposit in savings accounts. Not only does this lead back to the low and rather egalitarian distribution of wealth in the socialist society, but in the state-owned banking system, the latter which amounted to a *de facto* tax on the population given limited spending opportunities and negative real interest rates on savings. Pensioners' low savings rates nose-dived in 1989, from 5.7 percent to 1.9 percent.

The savings rate fell dramatically for the three working household groups, between 1989 and 1990, and again between 1990 and 1991. In contrast, pensioners' low incomes enabled them to save only 2 percent. In 1990, savings rates did not fall as much as might be expected, in part because of the fall in real value of deposits in the banking system. However, the savings rate for farmers was halved. By 1991, the impact of transition on savings is apparent.

Having looked at the figures, four explanations can be made about the level of savings during the early part of transition. (1) In 1989-90, the ratios indicated high levels of forced savings. (2) The sustained high levels of savings in the initial phase of transition could indicate precautionary behavior in an uncertain environment. (3) In 1991-92, the life cycle theory suggests that households dissaved during the recession to preserve living standards, on the expectation that fluctuating income would soon recover. (4) Uncertainty regarding the zloty exchange rate would also influence savings, with expected depreciation spurring higher conversion to dollars, and gradual appreciation increasing the appeal of accumulating savings in domestic currency.

By 1994, savings rates were substantially lower. The substantial decrease in the savings rate for employees and worker-farmers in 1993 suggests either tightened budgets or methodological changes. Because of the substantial deterioration of farmers' incomes, it is surprising that they continued to save from 1990-92. This may well be because of the seasonal nature of agriculture. The difficult conditions for farmers after the drought of 1992 may help explain the low savings in 1993. Although pensioners' incomes appear to be relatively high, savings are quite low. The average pensioner household actually experienced *dissaving* in 1992 and 1993.

The reader should be aware that there can be no automatic conclusion that the average household has savings of 7-8 percent of nominal income. Many independent studies have emphasized that very few Poles have any savings, much less substantial stocks. A 1995 survey by Demoskop²⁶ reported that only 30 percent of Poles had accumulated savings or some sort of financial reserves. The Demoskop survey also confirmed that pensioners' financial reserves are very low. According to research from Prof. Bolkowiak from the Institute of Finance²⁷ in Poland, pensioners and those

²⁶ "Polaków autoportret ekonomiczny", 1995, *Rzeczpospolita*, 1-2 July, p. 4.

²⁷ Summarized in "Oszczdnosci nie sa alternatywna konsumpcji", 1995, *Rzeczpospolita*, 4 December.

on disability benefits have few sources of income from interest, shares, and securities.

Dissaving is even more severe for unemployed households. Reported expenditure exceeded income by more than 12 percent in jobless households in 1993, and was lower but still negative in 1994. Accumulated money holdings have to be liquidated to meet the needs of households without earned income. Surprisingly, self-employed households only recorded saving less than 5 percent of monthly per capita income. It may represent underreporting of incomes, or perhaps investment in owner-operated businesses.

The 1995 figures show high levels of savings for worker-farmers and farmers, which probably have to be interpreted skeptically. Moderately better conditions may have enabled these households to have saved in anticipation of a return to drought and/or stronger competition from imports. Workers and self-employed households show a gradual improvement in savings, and pensioners are no longer reporting dissaving. However, the non-wage income households, which we characterize as unemployed households, continue to show a poor financial situation. Even if incomes are underreported, they are substantially below all the other groups and only half that of self-employed households. Moreover, these figures give us good reason to believe that at least a substantial proportion of households in this group do not bring in enough total income to meet their needs.

3.3.3 Allocation of consumption expenditure

When thinking about how consumption patterns have changed and why, we must again keep in mind the effects of disequilibrium in consumer markets under socialism, including shortages, queuing and forced substitution. The use of payments in kind and consumer subsidies further altered consumption behavior by unlinking it from strictly monetary requirements. During economic transition, and most notably during the early stages of reform, economic policies will affect consumption in several ways. As mentioned, price liberalization will affect relative prices as well as real incomes. Trade liberalization was essential not only to ease shortages of consumer goods but also for importing price signals and competition. We would expect

consumption patterns to shift rapidly, but the question is what this means for economic welfare. Based on our consideration of Podkaminer's hypothesis, after liberalization the spillovers into demand for food characteristic of market socialism should be diverted to purchasing more, higher priced consumer goods and services. Moreover, the effects of exchange rate liberalization on consumption of domestic and imported or importable goods would also predict a shift of consumption behavior from domestically produced staple goods (most importantly food) to imported consumer goods, including home electronics, cars, appliances, and so on. Certainly, there was a great, pent-up demand for durable goods by the end of 1989. If this were strong enough, even low income groups might divert spending power from food or savings to durable goods. Larger stocks of durables, and not just the flow of accumulation, implies greater utility for the household (Górecki 1994). Based on household survey income and expenditure data, Table 3.11 presents per capita monthly expenditures, deflated to 1985 prices and Table 3.12 has spending levels relative to 1990 expenditures.

TABLE 3.11

REAL MONTHLY PER CAPITA EXPENDITURE (IN PZL, 1985 PRICES)

	<i>Employees</i>	<i>Worker-farmers</i>	<i>Farmers</i>	<i>Pensioners</i>
1987	16221	14570	16973	16304
1988	17380	15228	18657	16712
1989	16312	15187	18365	14322
1990	13043	11788	13206	12079
1991	13682	11285	11654	13395
1992	13397	10933	11349	12809
1993	13497	11292	12323	14074
1994	13161	11375	11573	13623
1995	12992	10916	11410	13558

Source: *Rocznik Statystyczny*, various issues.

Table 3.11 provides some interesting observations. First of all, based on 1985 prices (which are used to avoid the worst of the disequilibria), real consumption expenditure began to decline in 1989, by 6.1 percent for workers and 16.6 percent for pensioners. The falls were of a much lesser magnitude for farmers and worker-farmers. In 1989, there were substantial falls in household expenditure across the board: -20 percent for workers, -22.4 percent for worker-farmers, -28 percent for farmers, and another -15.7 percent for pensioners. Figures remained fairly steady

between 1990 and 1995, with agricultural households spending less per head than urban and pensioner households, which is not surprising. The 1995 figures are rather curious, because worker households decreased real spending despite a rise in real wages.

Again, these figures are interesting indicators, but the various problems with price indices during the transition probably have caused some degree of distortion. However, we can make a cautious conclusion that most of the fall in real consumption, as measured by "real" 1985 zlotys, occurred in 1989 and 1990. For pensioners and workers, there is some variation of deflated income after 1990, but none to the same scale as in the difficult months during the escalation of economic crisis in 1989 and the months immediately after liberalization in 1990. Agricultural households, on the other hand, experienced a further fall in 1991 and have not managed to recover to even 1990 levels. However, these groups did show a high savings rate compared to their low per capita income, so like the other monetary measures, these must be taken with a grain of salt.

Considering the problems with real income data discussed in earlier sections of this chapter, consumption data can provide an alternative estimate of the effects of the "big bang" reform program on living standards. From Tables 3.11 and 3.12, we can see that in relation to 1989, consumption in 1990 was between 19 percent and 39 percent lower. However, the reliance on price indices to calculate these figures suggests that they may be liable to the same sources of distortion as income data. This further reemphasizes the role of quantitative indicators for determining real changes in economic welfare.

TABLE 3.12

INDEX OF REAL MONTHLY PER CAPITA EXPENDITURE (1985 PRICES, 1990 = 100)

	<i>Employees</i>	<i>Worker-farmers</i>	<i>Farmers</i>	<i>Pensioners</i>
1987	124	124	129	135
1988	133	129	141	138
1989	125	129	139	119
1990	100	100	100	100
1991	105	96	88	111
1992	103	93	86	106
1993	103	96	93	117
1994	101	96	88	113
1995	99	93	86	112

Source: *Rocznik Statystyczny*, various issues.

Budget shares

Just examining figures on the total level of expenditure can only tell about gross expenditures. However, previous sections have emphasized the importance of shifts in relative prices and supply for changing consumption patterns in Polish households. In this section, we examine the distribution of total expenditure into specific types of goods and services. For each of the occupational panel groups, total per capita monthly expenditure was broken down into allocation into seven groups and two subgroups (see appendix). In all groups, food accounts for the largest share of consumption expenditure. All groups spent about half of total outflows on food in 1990. While for employees and pensioners the share of spending on food has fallen by 10 percent or more, for worker-farmers and farmers it has only fallen in the range of 3 percent of total expenditure. In Table 3.13, the proportion of essential expenditures — food, rent, and household energy — for each of the four main household types is presented.

TABLE 3.13

ESSENTIALS AS PERCENTAGE OF TOTAL PER CAPITA CONSUMPTION EXPENDITURE

	1987	1989	1990	1991	1993	1995
EMPLOYEES	53.8%	58.1%	61.1%	58.1%	58.2%	58.0%
WORKER-FARMERS	58.9%	63.1%	66.2%	64.2%	64.5%	61.6%
FARMERS	59.5%	64.4%	67.5%	65.5%	65.5%	63.2%
PENSIONERS	65.3%	70.9%	73.1%	68.6%	66.5%	65.2%

Note: "Essentials" equals food, housing, and utilities.

Source: Author's calculations from GUS data.

An indicator of increased hardship during the early stages of reform is the increasing share of essential goods and services — food, housing, and utilities — in total household expenditure. If we can take this index as a simple measure of welfare, then it is clear that high inflation and shortages made the necessities of life more expensive for all types of households. This is especially true for households dependent upon indexed benefits. Between 70 percent and 73 percent of pensioners' expenditure was just on these basic necessities in 1989-1990. Workers, on the other hand, experienced less variation in the proportion of spending allocated to basic goods and services.

Between 1989 and 1990, most of the rise in spending on essentials can be accounted for by foodstuffs. As we shall see later in this chapter, food consumption remained fairly steady in volume terms while aggregate spending fell about 15 percent. After 1990, rising energy prices pushed spending on electricity, heating, gas, and hot water from less than 3 percent of employee households' expenditure in 1987 to 9.2 percent in 1994. For pensioners, utilities represented 5 percent of the household budget in 1985, but over 13 percent in 1995. Across all groups, the price of domestic energy accelerated in 1990 and has increased over each of the past five years. Energy costs now account for a much greater share of total spending on housing.

Health and hygiene spending have risen for all groups, but less so for agricultural households of both types. It would appear that charges did not increase in line with inflation in 1989, judging from the very low figure for pensioners and falls in other groups for that year.

The pattern of spending on transport and communications indicates that these services are normal goods, where consumption increases with income²⁸. The highest income group, the self-employed, allocate 14 percent of total monthly income to this category whereas the those on social assistance spend only 5.4 percent of a much lower total income. This is largely connected to the costs of buying and maintaining automobiles, including fuel. In 1994, self-employed household spent a monthly average of PZN 45.30 (PZL 453,000) on transport and communications in 1994. 46 percent of this went to fuels and oils. Workers were the next highest spenders on cars and communications, with per person expenditures of PZN 20.68 in 1994. Of this, PZN 5.59 covered gasoline and oil. Worker-farmers and farmers spent slightly more on personal transport, PZN 12.71 and PZN 13.23 versus PZN 11.98 for workers. About half of this went to fuel. Households dependent upon non-wage income spent the least on transport and communications in 1994. Lower spending on automobiles reflected lower ownership rates. Spending on postage and telephones was about half that of employees and pensioners and one-quarter of self-employed households, but more than twice that of rural residents.

²⁸ *Budżety Gospodarstw Domowych w 1994 r.*, 1995, p. 80.

TABLE 3.14

BUDGET SHARES AS PERCENTAGE OF NOMINAL CONSUMPTION EXPENDITURE

	<i>Self-employed</i>		<i>Unemployed</i>	
	1993	1995	1993	1995
Total (PZN)	216.44	341.48	107.03	158.54
Food	34.4%	32.3%	48.8%	48.8%
Alcohol and tobacco	2.8%	2.4%	3.7%	4.1%
Clothing	8.2%	7.7%	6.7%	6.2%
Housing	17.4%	20.1%	18.7%	19.0%
Rent	2.5%	2.7%	4.4%	4.9%
Energy	8.1%	8.6%	10.2%	10.4%
Health and hygiene	6.2%	6.0%	6.0%	5.0%
Leisure	9.5%	7.7%	6.8%	4.5%
Transport, communications	13.9%	13.4%	6.1%	5.3%

Source: Author's calculation from GUS data.

The four traditional panel groups all halved the proportion of spending on clothes and shoes relative to 1989 levels. Clothes are usually considered as a basic good, and lower clothes expenditure is thought to be a sign of economizing. The core four HBS groups spend similar amounts per person on clothes, with self-employed households spending about 40 percent more and unemployed households spending about 40 percent less. The most consistent expenditure across groups seems to be shoes, which apparently is fairly demand inelastic as an essential good.

Households of unemployed people allocate more than three-quarters of total monthly expenditure on the necessities: housing, food, and energy. Self-employed households direct less than two-thirds of expenditures on these necessities. It results that self-employed households are able to spend more on leisure and automobiles.

In 1985 and 1989, only about 2.5 percent of private consumption was spent on electronic goods and household appliances²⁹. In 1994, this figure was around 3-4 percent³⁰. This may not seem like very much, yet appliances and consumer electronics are usually bigger ticket items. The consumer may save until they have enough to purchase the good (for cash), and then enjoy it -- and consume it -- for a long time after purchase. As we shall see below, there has been a clear accumulation of basic and leisure oriented durable goods. Increased stocks of durable goods implies increased improved welfare.

²⁹ *Rocznik Statystyczny*, 1990, p. 202.

³⁰ *Maly Rocznik Statystyczny*, 1995, p. 118.

Food as percentage of total domestic spending

Prior to 1989, each socioeconomic group spent between 38 percent and 48 percent of their monthly domestic expenditures on food. These are high figures for industrialized economies, and are at levels normally associated with very low incomes.

In 1989, there was a large increase in the proportion of spending on food. Part of this was due to the relative jump of food prices after liberalization in August. Spending on food rose again in 1990, to between 48 percent and 58 percent of total outflows. From 1991, there has been a definite fall in the proportion of spending that goes toward food. For the first three quarters of 1995, the group spending the smallest part of consumption spending on food were self-employed households (30 percent). Households maintained by non-wage incomes still dedicated over half of their expenses to food (52.3 percent).

TABLE 3.15

FOOD AS A PERCENTAGE OF TOTAL NOMINAL MONTHLY EXPENDITURE PER CAPITA

	<i>Employees</i>	<i>Worker- farmers</i>	<i>Farmers</i>	<i>Pensioners</i>	<i>Self-employed</i>	<i>Unemployed</i>
1988	38.1%	40.9%	39.0%	48.0%		
1989	45.8%	46.7%	45.3%	58.7%		
1990	48.0%	50.8%	51.8%	57.8%		
1991	42.0%	46.9%	50.3%	48.2%		
1992	39.0%	45.5%	49.2%	45.5%		
1993	37.2%	45.8%	46.8%	44.1%	34.0%	54.8%
1994	34.8%	42.7%	43.4%	41.3%	30.9%	50.5%
1995	37.4%	46.3%	47.2%	41.3%	32.3%	48.8%

Source: *Biuletyn Statystyczny*, various issues.

Historically, pensioner households have spent proportionately more on food than the three other panel groups. Yet since 1991, farmers, and since 1993 worker-farmer families, have spent proportionally more on food than pensioners. A high share of food in total expenditure is a standard indicator of low living standards, and the finding that the living standards of agricultural groups has fallen is complemented by the much smaller ratio of income spent on food in high income, self-employed households. So, from this simple indicator, it can be concluded that pensioners are faring relatively better than under socialism. Agricultural households were doing quite poorly in 1990-91. While farmers' situation may have somewhat eased in recent years,

they are still spending more on food than any group except the unemployed. Employees are not doing as well as the self-employed, but they also display a greater readjustment of spending away from food than do agricultural and unemployed households.

3.3.4 Consumption of foodstuffs

The consumption of food as measured in physical volumes can reveal much about how people are living, and it can also provide a relative indicator of worsening or improving conditions. However, it must be emphasized that while falling caloric intake and rising share of carbohydrates in the diet can indicate deteriorating conditions, it is not enough to state that more equals better. In the post-war decades, Central Europeans ate a sufficient amount of food, but it was not the healthiest diet. A disproportionate amount of nutrition came from staples such as potatoes and bread, foods were normally consider as “inferior goods”. The endemic and unpredictable shortages of fruit and meat are now passed into economic legend, and quality, too, was often of a substandard level. The shift in consumption patterns -- guided by availability, price, and choice -- can reveal as much as changes in physical quantities.

Consumption of foodstuffs has been remarkably stable in volume terms (physical measures, e.g. weight, volume, and units of food) both before and after 1990. This is true across the panel groups and for different types of food. There does not seem to be a serious deterioration in consumption as the direct result of the stabilization of January 1990, nor during the recession of 1991. The only notable decrease in food consumption was in 1994, when this effect affected all but worker-farmer households.

A comparison of 1986 and 1989 intake levels shows a half kilo increase in meat consumption, but a slight reduction in vegetables and fruit. In relation to 1989, meat consumption in 1994 was only marginally lower across all household groups. More vegetables were eaten, and employees and worker-farmers consumed more fruit.

Milk consumption has fallen greatly across the board. However, this may not necessarily mean a worsening of diets, as Szamuely (1996) argues. Before 1990, the quality of milk in Poland was poor and it spoiled very quickly. The widespread introduction of milk pasteurization and the availability of long life milk as a result of market reforms lets people keep milk for longer. Less wastage means that a fall in volume measures of milk consumption may not adequately reflect the improved quality of milk and dairy products.

TABLE 3.16
CHANGES IN FOOD CONSUMPTION BY VOLUME (KILOGRAMS)

All household types have reduced their consumption of eggs. Like the reduction in cheese consumption, this may reflect the replacement of inexpensive protein sources with meat. It may also reflect healthier menus. In 1994, the average person in an unemployed household ate nearly 11 eggs each month. Farmers' monthly egg consumption in 1994 was 18.5, down from more than 23 per month in 1989.

In 1994, the dip in the intake of vegetables and potatoes was probably a result of the drought in that summer, which increased the prices of produce. Potato prices were 176 percent higher than the previous year, and most other vegetable prices doubled. Meat prices, however, rose 16-17 percent on average. The food price index for the year was 33 percent, slightly higher than the CPI and higher than the services price index for the first time since 1990.

Market research also finds, perhaps to an even greater extent, that Poles are changing their food preferences. While more processed foods are being bought, the volume levels are still much lower than in Western Europe. For example, in 1994 sales of fruit juices and juice drinks rose 211 percent, but at 3.5 liters per person each year Polish consumption of juices is much less than the 40 liters consumed annually in Germany³¹.

FIGURES 3.4-3.7
AVERAGE MONTHLY CONSUMPTION OF FOOD BY SOCIOECONOMIC GROUP

³¹ "Wielkie Zakupy", 1995, *Wprost*, 14 May, p. 37.

Pensioners consumed the greatest per capita volume of food, followed by farmers. The volume and variety of food consumed by pensioners indicates at least a larger food intake than other groups. Farmers and pensioners maintained higher consumption levels, without a deterioration in the quantities of fruit and vegetables consumed. Farmers' meat consumption in 1994 was only 0.4 percent lower than in 1986.

In 1992, mixed households produced 45 percent of their food themselves, as measured by value³². This production for own use may help to demonstrate the generally acknowledged role of home production of foodstuffs and provision of services, in both a shortage economy and under conditions of falling income in constant terms. Reinforcing this interpretation is the high and rising ownership rate of refrigerators and freezers amongst mixed households, which is higher than for workers and slightly below agricultural households. For agricultural families, own production was slightly more important, providing 53 percent of the total value of consumed food. Workers, on the other hand, only produced 5 percent of food themselves. One-tenth of pensioners' food consumption was self-produced, this source being more important for lower income groups.

The inclusion of the self-employed and unemployed from 1993 provides an interesting observation. Their total volumes of food consumption are quite similar, and both amount to less than that consumed in employees' households. Self-employed households not only eat more of the better goods such as vegetables, fruits, meats, and fish, but they also consume more cream, cheese, eggs, and sugar.

Typical of poorer households, unemployed people consume more flour, bread, potatoes, and fats. This is the one group whose eating patterns are noticeably affected by low income. These households are more reliant upon staple starches, and consume less meat, fruit, and vegetables than other household types. For unemployed households which were formerly employed in the state sector, there has been a degree of deterioration in food consumption. However, for worker-farmers who have become listed as unemployed, this aspect of living standards has been greatly reduced.

³² *Budżety Gospodarstw Domowych w 1991 r., 1992, table 7(24).*

FIGURES 3.8-3.9
CONSUMPTION OF BASIC FOODS BY HOUSEHOLD TYPE, 1989 AND 1995

Changing dietary habits are evident in the consumption choices of self-employed and employee households. Employees have consumed less than agricultural and retired households in total volumes. Since 1990, employees' food consumption has shifted away from staple starches and more towards normal goods: fruit, vegetables, and fish. Self-employed households appear to set trends, and employees to follow. Not only do more affluent, professional families spend proportionately less on food, but they also consume smaller quantities.

Overall, the dynamic behavior of food consumption in each individual household group is notable for the lack of an effect. The first sign of a decrease in aggregate food consumption, or a sizable shift between goods, occurred four years after the start of the radical reform program. The cause would appear to be the protectionist and interventionist policies implemented by the SLD-PSL government after its election in September 1993. The aggregate consumer price index for vegetables rose 38.9 percent from 1993 to 1994, as against the overall CPI of 32.1 percent. Certain types of vegetables, including potatoes, beans, onions, and carrots, nearly doubled in price³³. There was also a drought in 1994, as there was in 1992. If the figures for 1995 show a recovery, this may be a function of the increase in real wages last year or it may reflect a better harvest. However, if vegetable and fruit consumption stays on these lower levels, there is a good chance that these effects may come from political causes. It is worth noting that if import tariffs and minimum price guarantees are the culprit, then the farming sector appears not to have benefited either in terms of increased real income or improved consumption possibilities.

The way in which statistics on food consumption are presented can lead to potentially distorted understanding of cause and effect in the economy. Turning again to Kabaj and Kowalik, we can see how selected statistics can give the impression that the lower quantities of food consumed in 1994 was the legacy of the 1990 stabilization and liberalization program. Kabaj and Kowalik (1995) present the "Average Monthly Per capita Consumption in Poland" for a range of selected foodstuffs, comparing 1989 and 1994. A comparison of their figures with my own

³³ *Rocznik Statystyczny*, 1995, table 19(435), p. 328.

showed that the numbers were for employee households and not aggregate figures as the table title implies. Their text mentions, in quick succession, Jeffrey Sachs's argument about the welfare gains of transition from a shortage economy, a brief mention of problems of price indices during such a transition (which somehow reads as a dismissal of the one point they actually concede), and a presentation of the same numbers which they just acknowledged were faulty. Then, the authors state that "impoverishment has increased so much that it could not be compensated" by the benefits of liberalization, and they cite food consumption figures to back up their argument.

The implication is that worsened living standards, as demonstrated through lower food consumption in 1994 than in 1989, were the negative results of economic liberalization. However, presentation of the consumption levels for each year between 1989 and 1995 tells a different story. In Figures 3.4 through 3.7, it is clear that the quantities of food consumed was remarkably constant over the first three years of transition, even for superior goods. The decrease in consumption in pensioner and employee households only happened in 1994. It so happens that after the 1993 parliamentary elections, the PSL have aggressively pursued a program of protectionism for Polish agricultural produce, including an increase in import tariffs (disguised as "equalization payments"), a domestic price intervention mechanism, and subsidization through more credits at subsidized prices. Table 3.9 shows that 1993 was the first year since 1990 in which food prices rose by more than non-food goods.

Further credence to the idea that agricultural prices were boosted by protectionism shows in that employee and pensioner households, the two groups which must rely on bought rather than self-produced food, showed a decrease in the volume of food consumed. One could assert, with more justification, that living standards in 1993-94 were *worsened* by PSL-led protectionism measures which decreased real incomes for sensitive groups including the unemployed, single-parent families, and poor pensioners.

3.3.5 Consumption of durable goods by volume

In the consideration of material standards of living, the rapid accumulation of consumer goods across income groups and occupational types may be the most significant indicator of how peoples' daily lives have changed. Since 1990, there has been an explosion in the ownership of durable goods which were for many years unattainable luxuries.

This section presents a detailed picture of how the negative impact of Poland's transformation recession was dampened by the surge in personal consumption, even in 1990. Basic consumer goods are replaced by more sophisticated items. As car ownership increases, the number of bicycles and motorcycles falls. Automatic, modern washing machines are bought in favor of basic washing machines and spin dryers. A growing proportion of televisions are color sets, and cable, satellite, and videocassette recorders are permeating the market. Poland is reported to have the fourth highest density of cable television subscribers in Europe³⁴.

It is interesting that the one home appliance which not many households have acquired is a dishwasher, probably because of a lack of space and plumbing outlets in most kitchens.

TABLES 3.17-3.22

DURABLE GOODS PER 100 HOUSEHOLDS BY SOCIOECONOMIC GROUP

The importance of the increase in the stock of durable goods lies in whether the more disadvantaged households have also been able to participate in this consumer revolution. Ownership of utilitarian goods is fairly high. Sales of automatic washing machines in 1994 were 26 percent higher than in 1993³⁵. To start, let us examine the situation in pensioner households. A decently high proportion of pensioner households possesses the most important labor-saving devices. 96 percent of pensioners have a refrigerator, and more than 80 percent have either a mechanical or electronic washing machine. Over 83 percent own a vacuum cleaner, one in five owns a freezer. Car ownership has increased, although not at the same rate as in

³⁴ Donosy, 4 February 1997.

³⁵ "Wiekie Zakupy", 1995, *Wprost*, 14 May, p. 37.

other household groups. Even pensioner households are increasing the number of durable goods associated with leisure activities. One in five owns a videocassette recorder, and more than 60 percent have a color television. Even the lower income pensioners have increased the number of basic goods they own.

The situation in unemployed households is somewhat of a mixed bag. Car ownership is lower than all but pensioner households, probably because of the costs of maintaining and running a car. Otherwise, their material situation is located between employee and farming households. Unemployed households have the second lowest rate of color television ownership, but have greater access to satellite and cable television for all but self-employed and employee households. Vinton (1993) quotes a 1992 Labor Ministry report which found that of the 12.3 percent of Polish families which received income support, one-third owned color televisions, one in four owned a videocassette recorder, and one in five owned a car, which in 1992 was still a luxury. In the early years of transformation, ownership levels in unemployed households still reflect purchases made when employed. What can be noticed is lower ownership of goods with higher running costs, such as cars. If Poland develops a stratum of the long-term unemployed, then we may see this group falling further behind. At the present, the gap between unemployed and employed households is not that wide, suggesting that this group can still be fairly easily reintegrated through employment.

Despite a near-halving of real income as measured by the CPI, farmers' households have been able to acquire durable goods. Consumption patterns reflect the needs of the rural lifestyle. A higher proportion of farmers than employees own cars and motorcycles; rural residents cannot always rely on public transport. There are also greater numbers of sewing machines and freezers in farming homes, reflecting the importance of self-produced goods in the rural economy. Fewer farming households have cable or satellite than employees households, who are often linked into services provided to their apartment building. There are proportionately fewer color televisions, but their numbers doubled between 1989 and 1991. The overall trend was of accumulation of more advanced goods, including for basic appliances such as vacuum cleaners.

Employee and self-employed households have acquired the greatest saturation of consumer electronics. More than 83 percent of self-employed households own at least one car, and half of farming household also do. While entrepreneurs' households are coming to resemble West European ones in terms of durable good ownership, the increasing disparity in material welfare is exhibited by the lower levels of consumer durables in households of unemployed people.

TABLE 3.23
OWNERSHIP OF SELECTED CONSUMER GOODS (1992)

	<i>State workers</i>		<i>Worker-farmer</i>		<i>Farmer</i>		<i>Pensioner</i>	
	<i>GUS</i>	<i>CBOS</i>	<i>GUS</i>	<i>CBOS</i>	<i>GUS</i>	<i>CBOS</i>	<i>GUS</i>	<i>CBOS</i>
Refrigerator	99.9	98	100.9	96	98.5	90	96.3	89
Color television	91.4	82	65.4	56	48.9	39	52.7	49
Sewing machine	57.1	60	74.9	61	67.5	51	55.6	46
Automatic washing machine	69.7	62	37.4	25	28.5	21	39.5	30
Automobile	41.4	44	49	42	41.7	35	15	14
Freezer	30.3	32	55.7	41	56.6	43	16.3	18
VCR	53.4	45	27.7	22	15.5	12	13.5	12

Note: Goods per 100 households for GUS data; percentage of households owning good for CBOS data.

Sources: CBOS, 1992, "Ekonomiczny wymiar zycia codziennego", pp. 100-101; *Rocznik Statystyczny* 1993, pp. 243-244.

To learn more about the data on durable good ownership, Table 3.23 compares the official Household Survey results with those obtained in a comprehensive CBOS survey of 1992³⁶. It must be emphasized that these are two different measures. The GUS data measures the number of goods per 100 households, while the CBOS data reports the percentage of households owning at least one item in each class of goods. This explains why the GUS figures are mostly higher than the CBOS data. The survey data shows many of the same trends which were noted in the Household Survey data. Workers' households possess more electronic goods, such as color televisions and VCRs. Farming households own more refrigerators and freezers and fewer home electronics. Pensioners have fewer consumer durables overall, with substantially fewer cars. In contrast, the CBOS data records that 65 percent of self-employed households have at least one car and 90

³⁶ CBOS, 1992, "Ekonomiczny wymiar zycia codziennego", pp. 100-101.

percent have a color television set, which are the highest ownership rates in the survey. More than one in five self-employed households have a computer — three times as many as workers but only twice as many as the 10 percent of people on benefits who have computers.

To conclude this section, we may note that the amount of goods bought on credit is rising. In 1994, consumer credit rose 60 percent, which was the fastest rate of increase since liberalization³⁷. The goods most frequently bought on credit include televisions, videocassette recorders, computers, and also bicycles and cars. As Poland is still largely a cash economy, the expansion of consumer credit means that consumption can now be linked to future as well as current income. This reflects increasing confidence in the stability of the economy and lessening uncertainty, at least amongst the people who are granted loans. Another interesting point is that the vast majority of cars are purchased second hand. This means that the stock of cars is older than in advanced market economies. There were nearly 7 million cars in Poland in 1995, and this market is estimated to expand to 10 million in 2000 and 15 million in 2010.

3.4 WHO ARE THE WINNERS AND LOSERS OF POLAND'S TRANSITION?

i. Consumption falls less than "real" income decreases

Judging from the fall in measures of real income between 1989 and 1990, it has been argued that there has been a commensurably sizable fall in consumption and thus living standards. This was simply not the case. There is an observable disparity between income and consumption, which can be partially explained by statistical problems characteristic to the transition as well as intentional underreporting of incomes. The strength of the consumption boom in Poland underlines this point. In 1995, the continuing economic recovery in production and investment was complemented a return to rising levels of personal savings. These savings were more than just the rebuilding of real stocks of liquidity. Yet in an economy where a large section of the population still do not even have bank accounts (estimated range is that

³⁷ "Jak sie zyje w rodzinie i w regionach", 1995, *Rzeczpospolita*, 30 June.

between 50 percent and 90 percent of people are without bank savings)³⁸, the most reliable indicator of prosperity is the increased possibility of consumption. The resilience of volume consumption of food and durable contradicts the behavior of statistical measures of income and reinforces the argument that the fall in real balances and wages resulted from the correction of excessive monetization.

A similar conclusion is reached in J. Gomulka (1995), who argues that if consumption is an indicator of material living standards, then the "fall" in real incomes based on 1989 earnings has very little connection to consumption patterns from 1990 to the present. The surprising conclusion of her exercise is that disparities living standards have not substantially widened during transition³⁹.

ii. *Self-employed households exhibit the highest living standards of the examined socioeconomic groups.*

Perhaps the greatest success of Poland's transition to the market has been the unbridled growth of the private sector. From 1992 to 1995, growth has been almost completely due to growth of the private sector. In 1994, private enterprise accounted for 96 percent of agriculture, 89 percent of retail trade, 86 percent of construction, 43 percent of transport services, 38 percent of manufacturing and most of Poland's foreign trade (Bossak 1995).

The private sector also accounts for a growing percentage of employment. In 1985, there were 575,000 people registered as self-employed. This number rose to 923,400 in 1989, 1.28 million in 1990, and 1.63 million in 1991. By 1994, more than 3 million people were classified as self-employed outside agriculture, with 1.9 million registered individual proprietorships⁴⁰. Taking the Household Survey as a guide, if the average self-employed person supports two other people⁴¹, then households of the registered or official self-employed sector account for at least 16 percent of the population. Does this growth signal the anticipated growth of the Polish middle class?

³⁸ *Rzeczpospolita*, 25 April 1997, p. 1.

³⁹ The private sector was excluded from GUS data at that time.

⁴⁰ *Rocznik Statystyczny*, 1992, p. 96; *Maly Rocznik Statystyczny*, 1995, p. 330.

⁴¹ This is a rough estimate. Taking the average number of people in a self-employed household (3.81), the number of self-employed people (1.29) was subtracted and the remainder divided by the number of self-employed. So this includes pensioners (0.22) and people with paid employment (0.31) as well as dependents (1.85). However, I do not think this biases what is a realistic estimate.

As for the welfare indicators presented in this chapter, self-employed households exhibit the best living standards of all the examined socioeconomic groups. However, our optimism should be tempered by reference to World Bank estimates that in 1993, 8.9 percent of self-employed households were poor (World Bank 1995, p. 16).

iii. Living standards in benefit-dependent households are much lower than other groups and falling further behind.

The Household Survey group of households maintained from non-income sources is not a large group. The World Bank (1995) calculated that they total slightly more than 2 percent of all households, and they made up 3 percent of the 1993 Household Survey panel. The primary reason for lack of earned incomes was unemployment. In total, there were 2.6 million unemployed people in December 1995, or 6.8 percent of the total population. Of these, 41 percent (3 percent of the population) did not qualify for unemployment benefits⁴².

While this is not a large group of people, concern arises over the considerable gap in living standards between this and all other groups. The rising relative cost of housing and energy may have endangered what was a relatively equal distribution of housing (by density and quality) across income groups. The preceding section on durable good ownership suggests that many unemployed households have recently entered sub-poverty expenditure levels. In the section on sources of income, a surprisingly low proportion of the unemployed appeared to have substantial outside earnings, whether through casual jobs or self-employment. A Gallup poll conducted in September 1994 found that 9.2 percent of respondents who had claimed unemployment benefits had worked at the same time.⁴³

If job creation picks up and absorbs more unemployed workers, then much can be done to decrease poverty levels. The World Bank poverty report (1995) suggests that at current rates of job creation, the poverty rate could be reduced to 5 percent by the year 2000. At present, the data from Household Surveys strongly suggests that living standards in households supported by non-wage income sources

⁴² *Biuletyn Statystyczny*, 1996, No. 1(459), January, p. 43.

⁴³ "Polak oszukuje [The Pole Cheats]", *Polityka*, 8 November 1994.

are much lower than other household groups and are falling further behind average. These are the losers of transition: the unemployed and people dependent on social transfers other than pensions.

iv. Alongside the private sector, the winners of transition include pensioners.

Pensioners are placed in the winners category because on average this group increased their consumption of food and consumer goods during the transition, and improved their income even in relation to pre-1990 deflated incomes. For issues of social policy and entitlements, it is important to note the striking differences between pensioners and people on income support or unemployment benefits. Pensioners are doing better, not only in relation to their pre-1990 position, but also in relation to other socioeconomic groups. Pensioners have become an important political lobby through their sheer numbers, and the increase on spending on pensions has not prevented the development of more unequal income distribution amongst retirees.

v. State sector workers seem to be doing fairly well.

Employees have shown impressive levels of consumption, have rebuilt their savings, and have preserved food consumption. However, there will be micro-level differences between budget sector and industrial workers, and between successfully adapted and financially collapsed state enterprises. The prospect of becoming unemployed poses a serious threat to living standards, regardless of the point of reference.

vi. Farmers have fared rather poorly in the market economy.

In the wake of all the factors mentioned in this section, it is worth noting that farmers have been the most unified political lobby, and the most successful in obtaining protection from imports and price guarantees. The election of the SLD-PSL government in 1993 heralded a new age of easy credits and market intervention.

There is some real hardship in this sector, although shifting the burden onto the poorest households through higher food prices may not be the optimal solution.

vii. *Signs of an emerging middle class?*

The most underutilized pro-reform constituency is the emerging middle class. In the HBS, we can identify this group as self-employed professionals. In the real economy, professionals working for foreign companies and larger Polish firms will also fall into this social stratum. Probably the main cause behind the low political mobilization of this group is that the private sector has developed and grown despite a highly tumultuous political scene. Economic life at the grassroots level has become divorced from political life. Many authors (e.g. Wnuk-Lipinski 1991) assumed that the creation of an indigenous middle class would form the foundation of a liberal, modern democracy in Central and Eastern Europe. Yet this will not happen unless the message is pushed that this newly found prosperity depends upon the institutional and legal environment which is determined through the political process.

TABLE 3.6

SOURCES OF INCOME (% TOTAL MONTHLY PER CAPITA INCOME)

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Workers									
Hired work	75%	74%	82%	83%	80%	82%	76%	78%	79%
Private farm	2%	2%	3%	3%	2%	2%	2%	2%	1%
Self-employment							1%	1%	1%
Social benefits	12%	12%	14%	14%	17%	15%	15%	14%	13%
Other	11%	12%	1%	1%	1%	1%	7%	6%	6%
Mixed									
Hired work	43%	41%	46%	44%	44%	44%	44%	47%	46%
Private farm	36%	38%	41%	41%	35%	34%	29%	27%	30%
Self-employment						n/a		0%	1%
Social benefits	9%	10%	12%	14%	20%	20%	23%	21%	21%
Other	11%	11%	1%	1%	1%	1%	4%	4%	2%
Farmers									
Hired work	1%	1%	1%	2%	2%	2%	0%	1%	1%
Private farm	75%	76%	90%	85%	78%	77%	73%	73%	76%
Self-employment							0%	0%	6%
Social benefits	8%	7%	8%	12%	18%	19%	20%	22%	20%
Other	16%	16%	1%	2%	1%	1%	6%	4%	2%
Pensioners									
Hired work	9%	11%	11%	10%	10%	9%	7%	8%	9%
Private farm	6%	6%	8%	6%	5%	5%	4%	4%	3%
Self-employment							0%	0%	5%
Social benefits	74%	75%	80%	82%	84%	84%	82%	83%	83%
Other	11%	9%	1%	2%	1%	1%	6%	5%	4%
Self-employed									
Hired work							9%	11%	13%
Private farm							2%	2%	2%
Self-employment							75%	73%	72%
Social benefits							9%	10%	8%
Other							5%	4%	5%
Unemployed									
Hired work							3%	22%	18%
Private farm							3%	4%	4%
Self-employment							0%	0%	0%
Social benefits							51%	48%	54%
Other							43%	26%	24%

Sources: GUS, *Biuletyn Statystyczny*, various issues; *Maly Rocznik Statystyczny* 1988, p. 121; 1996, p. 135.

TABLE 3.16
CHANGES IN FOOD CONSUMPTION (KILOGRAMS)

Employees				Worker-farmers			
	Average 1986-89	Average 1990-95	% change		Average 1986-89	Average 1990-95	% change
Wheat flour	1.15	1.03	-10.2%	Wheat flour	2.05	2.05	0.0%
Bread	7.03	7.13	1.5%	Bread	8.61	8.20	-4.8%
Pasta	0.14	0.20	45.2%	Pasta	0.10	0.11	7.3%
Grains	0.39	0.35	-11.1%	Grains	0.48	0.48	0.2%
Potatoes	7.96	7.75	-2.6%	Potatoes	9.69	9.46	-2.3%
Vegetables	5.34	5.19	-2.9%	Vegetables	5.93	6.11	3.0%
Fruit	2.90	3.48	20.3%	Fruit	2.66	3.00	12.7%
Meat	4.80	4.84	0.8%	Meat	5.18	5.26	1.5%
Fish	0.47	0.43	-9.1%	Fish	0.30	0.29	-2.0%
Edible fats	1.60	1.46	-8.4%	Edible fats	1.73	1.61	-7.1%
Cheese	0.93	0.72	-22.4%	Cheese	0.93	0.89	-3.8%
Sugar	2.12	1.88	-11.6%	Sugar	2.71	2.54	-6.4%

Farmers				Pensioners			
	Average 1986-89	Average 1990-95	% change		Average 1986-89	Average 1990-95	% change
Flour	2.51	2.35	-6.4%	Flour	1.98	1.86	-6.3%
Bread	9.19	8.87	-3.5%	Bread	8.66	8.49	-1.9%
Pasta	0.13	0.13	-2.6%	Pasta	0.23	0.30	28.3%
Grains	0.72	0.54	-24.7%	Grains	0.90	0.80	-11.2%
Potatoes	10.37	10.18	-1.8%	Potatoes	12.24	12.39	1.2%
Vegetables	6.77	6.87	1.5%	Vegetables	7.66	7.47	-2.4%
Fruit	3.08	3.35	8.9%	Fruit	3.86	4.35	12.8%
Meat	6.40	6.33	-1.1%	Meat	5.44	6.04	11.0%
Fish	0.36	0.37	3.8%	Fish	0.62	0.57	-9.2%
Edible fats	1.98	1.83	-7.4%	Edible fats	2.18	2.06	-5.5%
Cheese	1.04	0.86	-17.8%	Cheese	1.37	1.03	-25.1%
Sugar	3.25	2.89	-11.2%	Sugar	3.03	2.66	-12.4%

Source: Rocznik Statystyczny, various issues.

TABLE 3.17

DURABLE GOODS PER 100 HOUSEHOLDS: EMPLOYEES

EMPLOYEES	1985	1989	1990	1991	1993 (a)	1993 (b)	1995 (b)	% change 1989/1990	% change 1985/1993
Radios	82.0	93.4	93.6	91.1	82.9	75.0	69.2	100.2%	101.1%
Televisions	113.6	128.8	133.2	133.2	119.6	99.7	110.4	103.4%	105.3%
'Color televisions	23.1	50.7	67.1	82.9	95.1	91.3	95.7	132.3%	411.7%
Satellite and cable TV					31.4	31.3	41.9		
Audio cassette players	67.0	70.3	77.1	81.5	32.8	31.2	26.8	109.7%	49.0%
Radio-cassette players			37.0	46.0	77.2	72.3	76.7		
Videocassette recorders		4.7	20.1	41.0	63.2	63.0	69.6	427.7%	
Video cameras					2.1	2.1	2.1		
Personal computers					11.0	10.9	12.2		
Washing machines and spin driers	118.6	137.2	136.3	68.0	59.7	98.6	126.2	99.3%	50.3%
Automatic washing machines	38.7	59.1	63.5	67.2	70.9	70.8	75.4	107.4%	183.2%
Refrigerators (c)	103.7	101.0	99.8	99.9	98.4	98.8	98.5	98.8%	94.9%
Freezers		20.3	23.8	27.4	32.3	32.2	33.5	117.2%	
Electric vacuum cleaners	94.8	97.7	97.6	97.6	96.2	95.7	97.2	99.9%	101.5%
Microwave ovens					3.5	3.5	6.3		
Dishwashers					0.7	0.7	0.6		
Sewing machine	53.6	60.2	60.5	59.6	56.7	55.7	53.4	100.5%	105.8%
Electric sewing machines	32.9	43.8	45.6	47.0		46.3		104.1%	
Bicycles	80.9	94.3	93.0	93.3	69.7	52.7	55.0	98.6%	86.2%
Motorcycles and motorbikes	10.5	10.8	10.6	9.5	7.1	6.9	5.1	98.1%	67.6%
Automobiles	27.2	30.7	33.2	38.3	44.7	43.9	45.7	108.1%	164.3%

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

c Refrigerators and freezers for 1985.

Source: GUS, *Rocznik Statystyczny*, various issues.

TABLE 3.18

DURABLE GOODS PER 100 HOUSEHOLDS: WORKER-FARMERS

WORKER-FARMERS	1985	1989	1990	1991	1993 (a)	1993 (b)	1995 (b)	% change 1989/1990	% change 1985/1993
Radios	82.4	88.6	87.2	87.9	81.5	77.5	75.5	98.4%	98.9%
Televisions	105.9	119.9	128.2	132.6	123.5	99.3	118.5	106.9%	116.6%
Color televisions	6.6	20.8	37.6	52.6	74.2	72.5	85.1	180.8%	1124.2%
Satellite and cable TV					5.3	5.3	7.9		
Audio cassette players	46.9	59.1	66.8	74.4	25.9	24.9	18.3	113.0%	55.2%
Radio-cassette players		11.7	20.1	29.8	65.3	63.3	69.8	171.8%	
Videocassette recorders		0.9	6.9	19.1	37.0	36.8	47.1	766.7%	
Video cameras					0.3	0.3	0.7		
Personal computers					2.3	2.3	2.8		
Washing machines and spin driers	116.4	134.9	137.2	101.1	98.2	98.8	90.0	101.7%	84.4%
Automatic washing machines	12.9	29.4	33.2	34.2	32.7	32.4	42.5	112.9%	253.5%
Refrigerators (c)	105.9	101.0	99.2	99.8	98.7	98.7	97.9	98.2%	93.2%
Freezers		33.3	44.1	52.7	59.9	59.1	67.6	132.4%	
Electric vacuum cleaners	70.2	81.5	84.2	87.8	86.4	85.6	89.8	103.3%	123.1%
Microwave ovens					1.2	1.2	2.4		
Dishwashers					0.4	0.4	0.1		
Sewing machine	70.8	79.4	74.9	75.3	72.8	69.2	70.5	94.3%	102.8%
Electric sewing machines	25.3	39.1	38.2	39.8		43.0		97.7%	0.0%
Bicycles	137.0	149.6	141.8	139.2	119.9	82.9	85.6	94.8%	87.5%
Motorcycles and motorbikes	32.6	31.4	29.0	26.1	20.5	19.3	15.1	92.4%	62.9%
Automobiles	21.6	28.1	35.1	43.4	53.5	51.3	58.2	124.9%	247.7%

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

c Refrigerators and freezers for 1985.

Source: GUS, *Rocznik Statystyczny*, various issues.

TABLE 3.19
DURABLE GOODS PER 100 HOUSEHOLDS: FARMERS

FARMERS	1985	1989	1990	1991	1993 (a)	1993 (b)	1995 (b)	% change 1989/1990	% change 1985/1993
Radios	80.2	86.0	86.2	82.7	82.3	78.8	72.9	100.2%	102.6%
Televisions	99.2	113.8	117.0	118.7	117.1	98.3	112.4	102.8%	118.0%
Color televisions	7.2	19.8	28.4	38.1	57.1	55.8	73.0	143.4%	793.1%
Satellite and cable TV					4.6	4.5	5.9		
Audio cassette players	31.6	41.0	49.7	55.7	20.1	19.7	15.8	121.2%	63.6%
Radio-cassette players		8.0	14.9	21.8	55.1	52.9	61.4	186.3%	
Videocassette recorders		0.9	4.7	10.8	25.3	25.3	32.8	522.2%	
Video cameras					0.5	0.5	0.5		
Personal computers					2.1	2.0	2.2		
Washing machines & spin driers	108.8	124.2	125.0	99.6	97.8	98.0	92.5	100.6%	89.9%
Automatic washing machines	11.3	23.2	24.8	25.6	28.6	28.4	33.6	106.9%	253.1%
Refrigerators (c)	97.4	96.2	95.6	96.1	95.4	96.8	96.1	99.4%	97.9%
Freezers		33.7	42.9	50.5	57.3	55.7	64.5	127.3%	
Electric vacuum cleaners	53.8	68.9	70.4	72.9	74.6	73.8	81.8	102.2%	138.7%
Microwave ovens					1.4	1.4	1.7		
Dishwashers					0.5	0.4	0.5		
Sewing machine	63.9	70.6	65.8	66.0	65.4	62.8	62.0	93.2%	102.3%
Electric sewing machines	17.9	26.8	26.6	27.2		30.5		99.3%	0.0%
Bicycles	121.5	140.0	136.5	129.3	117.0	85.0	87.2	97.5%	96.3%
Motorcycles and motorbikes	23.4	24.4	23.7	20.6	17.8	16.9	11.7	97.1%	76.1%
Automobiles	23.7	30.4	36.4	40.9	49.8	48.0	55.6	119.7%	210.1%

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

c Refrigerators and freezers for 1985.

Source: GUS, *Rocznik Statystyczny*, various issues.

TABLE 3.20

DURABLE GOODS PER 100 HOUSEHOLDS: PENSIONERS

PENSIONERS	1985	1989	1990	1991	1993 (a)	1993 (b)	1995 (b)	% change 1989/1990	% change 1985/1993
Radios	76.8	82.3	81.6	80.7	87.3	83.1	80.8	99.1%	113.7%
Televisions	95.5	104.7	106.6	111.0	108.4	96.4	105.5	101.8%	113.5%
Color televisions	8.4	21.0	28.3	43.4	64.6	63.3	76.3	134.8%	769.0%
Satellite and cable TV					12.6	12.5	20.9		
Audio cassette players	17.3	18.5	21.9	27.6	13.5	13.0	11.1	118.4%	78.0%
Radio-cassette players		4.3	7.0	11.2	33.6	32.3	37.4	162.8%	
Videocassette recorders		0.7	2.8	8.4	19.7	19.7	26.3	400.0%	
Video cameras			0.4		0.4	0.4	0.5		
Personal computers			1.5		1.5	1.5	1.9		
Washing machines & spin driers	98.0	114.0	114.1	81.6	74.4	95.6	67.3	100.1%	75.9%
Automatic washing machines	14.4	27.3	30.4	35.5	42.0	42.0	48.8	111.4%	291.7%
Refrigerators (c)	90.7	94.3	95.0	95.5	95.9	96.4	96.5	100.7%	105.7%
Freezers		9.1	11.4	14.3	21.7	21.6	24.4	125.3%	
Electric vacuum cleaners	71.0		79.1	81.9	83.8	83.2	87.3		118.0%
Microwave ovens				55.4	1.2	1.2	1.9		
Dishwashers					0.3	0.3	0.2		
Sewing machine	52.2		53.5	55.4	54.4	53.2	53.1		104.2%
Electric sewing machines	15.6		21.9	26.0		28.5			0.0%
Bicycles	38.8		42.4	44.2	45.8	39.3	41.6		118.0%
Motorcycles and motorbikes	4.8		4.9	4.7	4.3	4.2	3.5		89.6%
Automobiles	7.3		9.5	13.9	18.8	18.6	20.1		257.5%

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

c Refrigerators and freezers for 1985.

Source: GUS, Rocznik Statystyczny, various issues.

TABLE 3.21

DURABLE GOODS PER 100 HOUSEHOLDS: SELF-EMPLOYED

SELF-EMPLOYED	1993 (a)	1993 (b)	1995 (b)
Radios	87.1	76.1	70.4
B&W televisions	126.4	99.8	112.9
Color televisions	105.6	96.5	98.3
Satellite and cable TV	41.9	41.9	46.8
Tape recorders	39.1	36.3	31.6
Audio cassette players	86.6	79.7	82.2
Videocassette recorders	76.2	75.4	82.0
Video cameras	6.7	6.7	8.2
Personal computers	20.0	19.9	21.9
Washing machines and spin driers	52.1	99.1	43.2
Automatic washing machines	87.7	87.5	89.4
Refrigerators and freezers	99.6	99.3	98.6
Freezers	54.5	54.0	58.3
Electric vacuum cleaners	99.1	97.4	98.6
Microwave ovens	9.8	9.7	17.5
Dishwashers	2.8	2.8	2.7
Sewing machine	61.9	59.9	59.5
Electric sewing machines		54.5	
Bicycles	77.2	55.6	61.3
Motorcycles and motorbikes	7.0	6.9	5.6
Automobiles	88.7	83.6	83.4

Source: GUS, *Rocznik Statystyczny*, 1994 and 1996.

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

TABLE 3.22
DURABLE GOODS PER 100 HOUSEHOLDS: UNEMPLOYED

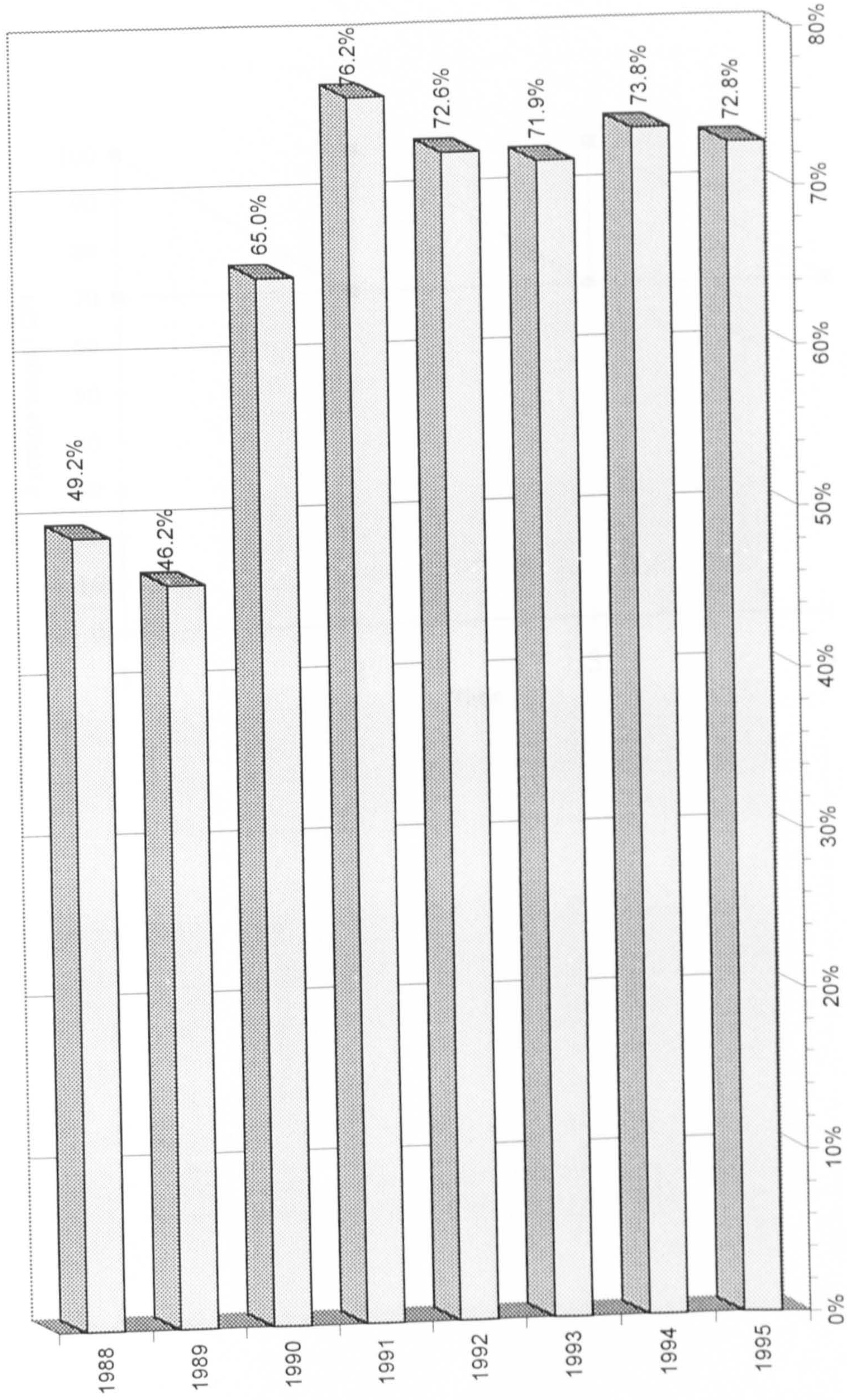
UNEMPLOYED	1993 (a)	1993 (b)	1995 (b)
Radios	74.0	69.8	64.5
B&W televisions	104.9	95.5	26.0
Color televisions	64.3	63.6	75.6
Satellite and cable TV	14.6	14.6	20.5
Audio cassette players	20.9	19.7	18.1
Stereo tape recorders	58.0	54.8	58.7
Videocassette recorders	32.8	32.8	39.6
Video cameras	0.7	0.7	0.6
Personal computers	2.9	2.9	4.3
Washing machines and spin driers	70.0	92.2	67.9
Automatic washing machines	36.3	36.2	39.8
Refrigerators and freezers	91.4	92.2	93.1
Freezers	14.6	14.6	16.3
Electric vacuum cleaners	79.5	78.9	84.7
Microwave ovens	2.2	2.2	3.1
Dishwashers	0.6	0.6	0.3
Sewing machine	36.0	34.8	33.5
Electric sewing machines		23.0	
Bicycles	48.6	40.6	44.5
Motorcycles and motorbikes	6.0	5.9	5.1
Automobiles	17.2	17.1	17.4

Source: GUS, Rocznik Statystyczny, 1994, 1996.

a Figures given in the number of goods per 100 households.

b Figures given in the percentage of households possessing these goods.

FIGURE 3.1
RELATION OF AVERAGE PENSION TO AVERAGE STATE SECTOR WAGE⁴⁴



⁴⁴ Source: *Maly Rocznik Statystyczny*, various issues.

FIGURE 3.2
PAZOS-SIMONSEN MECHANISM

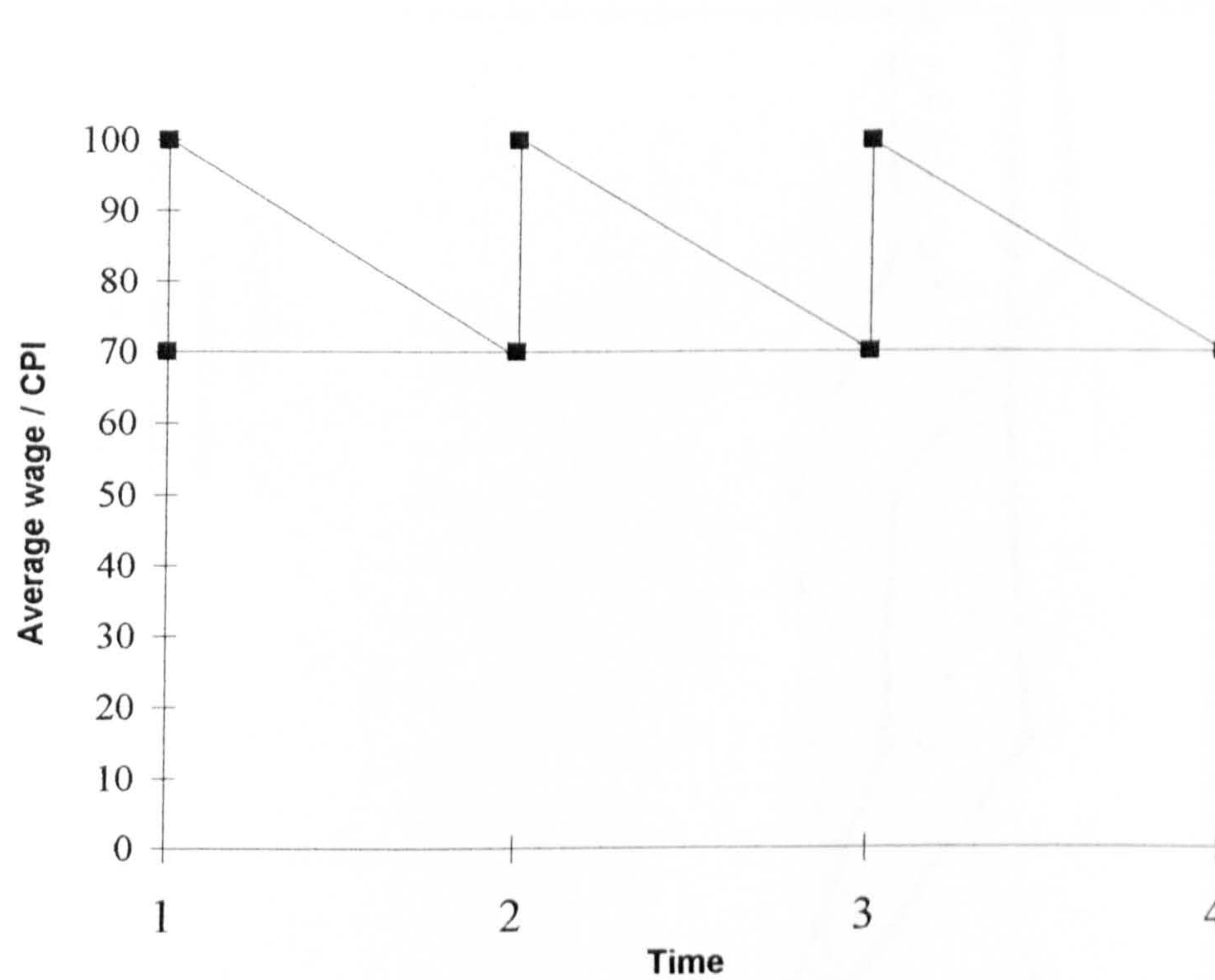
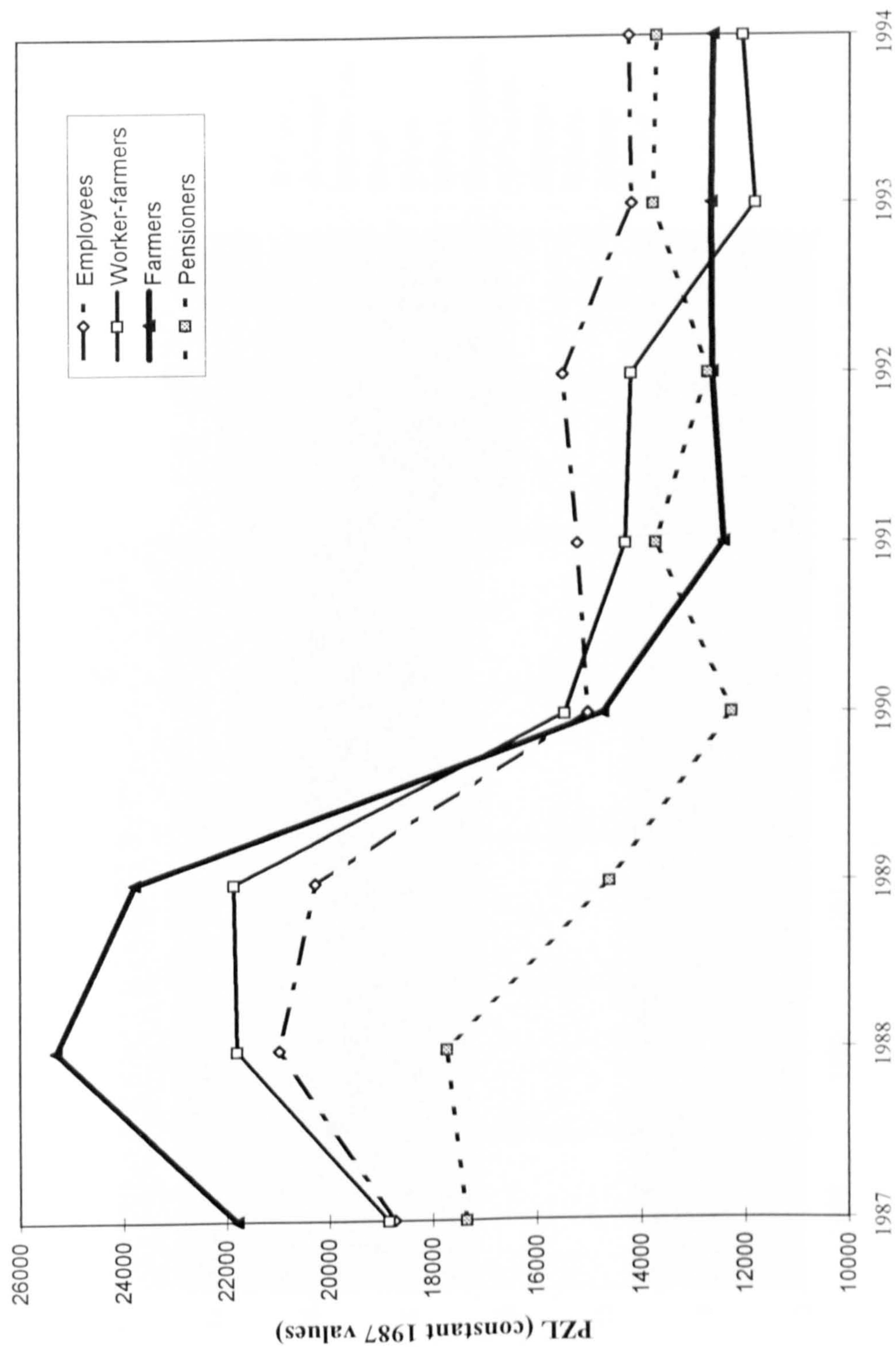


FIGURE 3.3
COMPARISON OF REAL PER CAPITA INCOME BY HOUSEHOLD TYPE⁴⁵



⁴⁵ Source: Author's calculations from GUS data.

FIGURE 3.6
AVERAGE MONTHLY CONSUMPTION OF BASIC FOODS IN FARMING HOUSEHOLDS

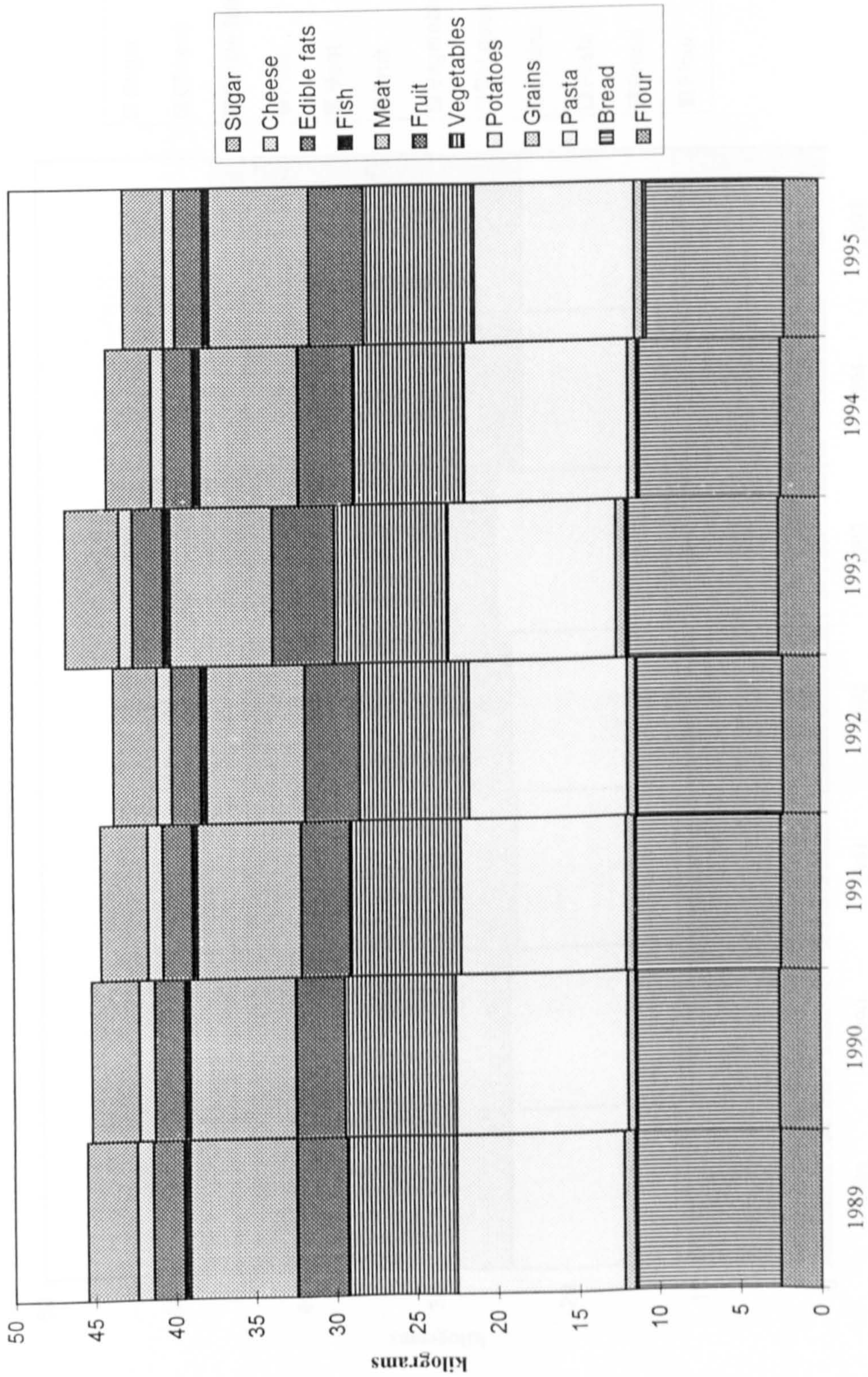
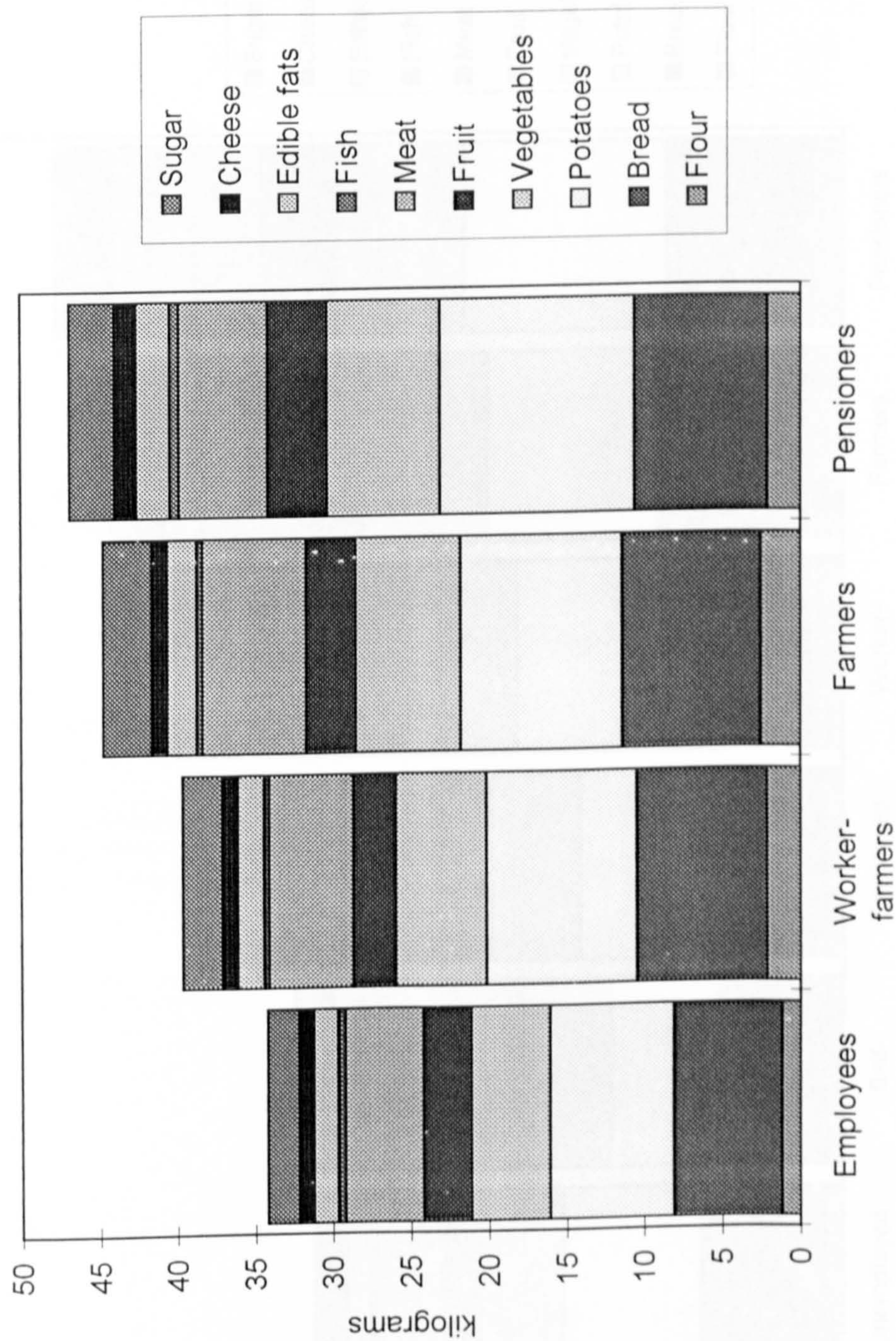


FIGURE 3.8
FOOD CONSUMPTION BY SOCIOECONOMIC GROUP: 1989



APPENDIX

APPENDIX 3.1

SOURCES OF INCOME: DISTRIBUTION OF NOMINAL VALUES (% TOTAL)

	1988	1989	1990	1991	1992	1993	1994
Employees							
Hired work	74%	82%	83%	80%	82%	76%	78%
Private farm	2%	3%	3%	2%	2%	2%	2%
Self-employment						1%	1%
Social benefits	12%	14%	14%	17%	15%	15%	14%
Other	12%	1%	1%	1%	1%	7%	6%
Worker-farmers							
Hired work	41%	46%	44%	44%	44%	44%	47%
Private farm	38%	41%	41%	35%	34%	29%	27%
Self-employment						0%	0%
Social benefits	10%	12%	14%	20%	20%	23%	21%
Other	11%	1%	1%	1%	1%	4%	4%
Farmers							
Hired work	1%	1%	2%	2%	2%	0%	1%
Private farm	76%	90%	85%	78%	77%	73%	73%
Self-employment						0%	0%
Social benefits	7%	8%	12%	18%	19%	20%	22%
Other	16%	1%	2%	1%	1%	6%	4%
Pensioners							
Hired work	11%	11%	10%	10%	9%	7%	8%
Private farm	6%	8%	6%	5%	5%	4%	4%
Self-employment						0%	0%
Social benefits	75%	80%	82%	84%	84%	82%	83%
Other	9%	1%	2%	1%	1%	6%	5%

Note: Data on income from self-employment available from 1993. Methodological changes in 1988 affect definition of other income.

Source: *Biuletyn Statystyczny*, various issues; *Maly Rocznik Statystyczny* 1988, p. 121.

APPENDIX 3.2

BUDGET SHARES FOR SOCIOECONOMIC GROUPS (PERCENTAGE OF TOTAL EXPENDITURE)

EMPLOYEES	1987	1989	1990	1991	1993	1995
Total (PZN)	1.62	9.33	48.87	87.97	168.01	274.93
Food	40.9%	45.8%	48.0%	42.0%	39.1%	37.4%
Alcohol and tobacco	4.0%	4.0%	3.2%	3.4%	3.0%	3.0%
Clothing	13.8%	16.9%	11.2%	10.4%	7.5%	7.5%
Housing	10.3%	10.6%	9.6%	16.0%	19.1%	20.6%
Rent		1.3%		3.2%	3.8%	4.2%
Energy	2.6%	1.7%	3.5%	5.9%	9.2%	10.4%
Health and hygiene	3.0%	2.6%	3.2%	4.2%	6.3%	6.2%
Leisure	9.7%	10.1%	11.2%	11.4%	8.7%	6.6%
Transport, communications	5.5%	6.2%	7.1%	8.7%	10.1%	9.5%

WORKER-FARMERS	1987	1989	1990	1991	1993	1995
Total	1.45	8.65	45.46	73.42	138.84	222.94
Food	43.6%	46.7%	50.8%	46.9%	47.9%	46.3%
Alcohol and tobacco	4.5%	4.3%	3.3%	3.4%	2.8%	3.0%
Clothing	14.6%	17.9%	10.8%	10.2%	7.6%	9.0%
Housing	12.3%	14.1%	11.4%	10.6%	16.6%	15.3%
Rent					0.3%	0.4%
Energy	3.0%	2.3%	4.0%	6.7%	8.8%	7.5%
Health and hygiene	2.1%	1.8%	2.3%	2.9%	5.0%	5.4%
Leisure	4.5%	5.4%	6.1%	6.3%	4.1%	3.5%
Transport, communications	5.8%	5.6%	8.0%	8.8%	10.1%	9.1%

FARMERS	1987	1989	1990	1991	1993	1995
Total	1.70	10.46	50.93	75.82	151.52	234.71
Food	43.4%	45.3%	51.8%	50.3%	48.8%	47.2%
Alcohol and tobacco	4.5%	3.5%	3.3%	3.6%	3.1%	3.6%
Clothing	12.1%	14.7%	9.0%	8.8%	7.0%	8.0%
Housing	12.6%	16.5%	11.2%	15.3%	16.7%	16.0%
Rent				0.2%	0.2%	0.3%
Energy	3.5%	2.6%	4.6%	7.3%	9.4%	8.5%
Health and hygiene	2.0%	1.6%	2.2%	3.0%	4.9%	2.8%
Leisure	3.7%	5.5%	5.0%	5.5%	3.5%	5.0%
Transport, communications	6.0%	7.7%	8.2%	7.8%	8.7%	9.6%

PENSIONERS	1987	1989	1990	1991	1993	1995
Total	1.63	8.29	48.60	92.39	189.80	310.78
Food	49.2%	45.3%	57.8%	48.2%	43.1%	41.3%
Alcohol and tobacco	3.2%	2.5%	2.4%	2.7%	2.3%	2.5%
Clothing	11.0%	14.7%	7.9%	8.1%	5.2%	5.1%
Housing	10.7%	16.5%	8.4%	24.8%	23.4%	23.9%
Rent				4.1%	3.5%	4.1%
Energy	5.4%	2.6%	6.9%	10.0%	13.7%	13.9%
Health and hygiene	9.3%	1.6%	3.7%	4.7%	8.2%	8.3%
Leisure	5.7%	5.5%	5.8%	6.5%	4.6%	4.0%
Transport, communications	3.8%	7.7%	3.8%	5.4%	6.3%	6.1%

Note: Rent, when provided, is a subsection of 'housing' category. Heating is calculated as a separate category until the 1994 edition of the Statistical Yearbook.

Source: Author's calculations from GUS data.

APPENDIX 3.3

COMMENTS ON THE METHODOLOGY OF HOUSEHOLD BUDGET SURVEY

The Household Budget Survey in Poland has undergone several changes in calculation, which impact the figures presented in this chapter and which at times limits the analysis.

First, data in the survey is presented for four “household types” through 1992: workers (or employees, divided into blue and white collar); worker-farmers (employees who also farm no more than 0.5 hectare of land); individual, private farmers; and pensioners and retirees. From 1993, the panel was expanded to include self-employed households and households maintained by unearned income. This second category includes households dependent upon unemployment benefits, income support, alimony, and income from sales of property.

Households are defined into one of these groups depending upon their main source of income. Pensioners living independently are counted as separate households, and financial assistance from relatives and others includes in “other” income. Pensioners may be included in other household groups if their benefits do not constitute the largest income source. For example, in 1995, pensioners lived in fewer than one in four workers and self-employed households. Pensioners in these households, including early retirees, contributed less than 8 percent of total household income from their pensions. Pensioners are more prevalent in agricultural households, but contributed no more than 16% of total household income in farming and worker-farmer households⁴⁶.

In Table 3.6, there is a noticeable decrease in the weight of “other” sources of income from 1989 and 1993 for all household groups. This is not explainable through the introduction of self-employment as a separate category in 1993. The definition across these dates⁴⁷ appears similar, and include both in money and in kind, with the exception that more recent editions include income from capital and personal investments. Another exception is that from 1993 the emphasis has shifted from gross to net income.

⁴⁶ GUS (1996), *Rocznik Statystyczny*, p. 167 and 169.

⁴⁷ GUS (1992), *Rocznik Statystyczny*, pp. 208-209; (1994), pp. 232-233.

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Per capita data dominates over equivalent unit measures. All tables with breakdowns of consumption and income are provided for the household and “for one person in the household”. Equivalent measures are only provided in tables listing the number of people in each panel group, but are not used in the consumption and income breakdowns.

Another problem is that decile groups for income are only provided until 1992. After this point income distributions are not calculable from *Rocznik Statystyczny* data, thus limiting the calculation of Gini coefficients and decile ratios.

Chapter 4

Transition and the Rise in Economic Uncertainty: Unemployment and Poverty

4.1 INTRODUCTION

While income and consumption are central to our understanding of changes in standards of living, they are not the only factors at work. As changes in economic policy can convey welfare gains from the removal of inefficiencies through the elimination of shortages and forced substitution (see Roberts 1993), economic transition also levies costs in terms of uncertainty about the level and distribution of future earnings and general economic welfare.

Whereas the efficiency gains from liberalization provide a primary force for improvement of consumer welfare, the high “social costs” of reform constitute the undesirable side of transition. Social costs can refer to different manifestations of greater disparities across social groups and the rise of economic uncertainty. Both of these concepts, greater inequality and uncertainty, can be illustrated through analysis of the emergence of open unemployment and poverty. This chapter is concerned with their incidence, distribution and comparative rate of change. It should be noted that the presented estimates are precisely that, and the scale of effects can be significantly affected by the chosen indicator. As shall be shown in the next chapter, the distribution of these costs and benefits is crucially important in the outcome of national elections.

Sources of economic uncertainty

For all of the inefficiencies of the shortage economy, the socialist regime managed to deliver a fairly comprehensive guarantee of a minimum living standard. Aggregate living standards were not high by international standards, but in return the social contract minimized uncertainty at the level of basic needs. Kornai (1992) classes the guarantees of economic security into five categories:

- Full employment, and elimination of the threat of unemployment. Because of international full employment policies, labor shortages emerged as demand

outstripped supply. When a worker left one job, there was a very high probability that another job could be found quite quickly.

- Provision of free public services. Education was free or at very low fees, and most people qualified for free health care. These services were not always outstanding, but their existence gave people a sense of security. Current debate centers on whether to enshrine these entitlements in constitutional form.
- A comprehensive public pension system, including for retired farmers in Poland.
- Housing was guaranteed. Overcrowding was common and standards were often basic, but rents and utilities were subsidized at very low rates.
- A social safety net sought to look after those without family support, such as lone elderly people and orphans.

Kornai also mentions tighter state security over crime, but I would argue that the failure to protect private property rights and the preferential treatment of state property in the criminal code constituted a failure to secure economic rights under the law, regardless of the ideological emphasis of collective over individual consumption in the socialist economy.

The most important economic security guarantee was the right to work, especially as the workplace was an important conduit for entitlements in the form of distribution of many non-monetary consumption goods and social benefits such as medical care, creche facilities, kindergartens, and so on. These guarantees were not perfect, and they did not guarantee against poverty, as we shall see. Yet the indoctrination of the citizen's right to these basic economic entitlements have strongly influenced people's preferences for economic policy.

In Chapter 3, we saw that during the transition there was higher variability in income, and that income from farming was more variable than that from employment or social benefits. Taking variability as a measure of heightened uncertainty, the post-1990 economy was a much riskier environment. This dissertation has already examined the extent to which changes in real wage income accounted for variability in total household income. In this chapter, our attention turns to the most politically significant causes of economic uncertainty, the rise in open unemployment, and also

to the higher incidence of poverty which is often but not always linked to unemployment.

Public opinion on most important problems

The decision to concentrate on unemployment and poverty is reinforced by findings from public opinion surveys. A series of polls reveals that factors associated with a low standard of living are consistently regarded as the most important problems -- economic or otherwise -- facing Poland. A survey taken in November 1990¹ showed that 15% of respondents thought unemployment was Poland's most pressing problem. This response was second only to the need for economic improvement (22%), and was followed by standards of living and the upcoming presidential election, both of which received 12%. In 1992, 1993, and 1994, two-thirds of respondents mentioned unemployment as one of Poland's most pressing problems, and just over half cited the combination of low wages and high prices².

Concern over unemployment spans social groups, while dissatisfaction with real wages dominates amongst workers and farmers. In comparison to living standard issues, fewer than 20% at any one time mentioned the negative effects of privatization, hunger, or social upheaval. When asked what they personally feared, in a January 1994 poll, 45% of surveyed Poles mentioned poverty, 38% feared a fall in current living standards, and 30% mentioned unemployment of themselves or a family member. CBOS notes that fear of poverty was more strongly correlated with people on lower incomes, while more affluent respondents tended to be concerned with a decline in living standards and crime.

Clearly, two of the most salient issues for economic voting in Poland -- and politics in general -- are unemployment and poverty. These issues overshadow even such important problems as crime, environmental degradation, and international affairs. Therefore, survey data on political priorities strongly supports the application of economic voting methodology to post-communist Poland.

The questions asked in this chapter include: who is affected -- do unemployment and poverty strike across socioeconomic groups or are their effects

¹ CBOS, 1990, "Najwazniejsze problemy dla Polski i Polakow w opinii publicznej", Report No. 681/90, November, p. 13.

² "Poland's Most Pressing Problems", *Polish Public Opinion*: CBOS, February 1994, p. 1.

concentrated amongst a vulnerable few? How deep is poverty? Is long term unemployment emerging? Does becoming poor or unemployed condemn people to membership in the underclass, or is there a high degree of transience into and out of unemployment and over the poverty line? Again, questions of measurement also come into play. Findings from some of the leading researchers on these subjects will be reviewed and criticized. Alternative estimates based on the findings of Chapter 3 will be made. The overall aim of the chapter is to acquire a balanced view of the incidence and depth of unemployment and poverty across socioeconomic groups.

4.2 UNEMPLOYMENT AND EMPLOYMENT DURING THE TRANSITION IN POLAND¹

The central concern of this section is to present a detailed analysis of the emergence and characteristics of unemployment in Poland during the economic transition. The first section discusses the general time pattern of unemployment through the transition. An attempt is made to explain why unemployment growth has been delayed as compared with the slump in output and why employment has not increased significantly during the economic upswing of the past three years. The second section presents an analysis of flows into and from unemployment. The importance of the unemployment benefits system as a factor influencing both separations and job search efforts is considered. The chapter then returns to the question of why outflows from unemployment have been weak in spite of the economic recovery. In the third section, findings on the evolving characteristics of the labor market are presented, including new findings on the regional distribution of unemployment. The fourth section concludes.

4.2.1 *“Transformational Recession” and Recovery with High Unemployment*

Employment under real socialism

In the socialist economy, priority was given to the elimination of explicit unemployment. This was because of both the socialist emphasis on the role of labor in society and the official view that unemployment, like poverty, was a distinguishing characteristic of capitalism. The socialist state provided a constitutional guarantee of employment, or the “right to work” through the protective provisions of the Labor Code. As a result, wages functioned as a universal social benefit for every labor market participant. In spite of the numerous material incentives linked to a worker’s productivity, guaranteed employment (job rights) caused general poor labor discipline and low efficiency².

¹ Some material in this chapter was drawn on for J. Bell and T. Mickiewicz, 1997, “Unemployment and State Sector Insiders during the Economic Transition”, *MOCT-MOST Economic Policy in Transforming Economies*, 2, forthcoming.

² On material incentives on productivity under socialism, see Drewnowski (1982), pp. 74-75. On “job rights” in the centrally planned economics: Linz (1994).

While open unemployment was not tolerated, the socialist economy did have *hidden* unemployment. In addition to these macro-incentives, the ability of enterprises and the budget sector to hire workers was not constrained by finances, what Kornai (1980, 1986) termed the “soft budget constraint” situation³. Labor hoarding arose because it was useful for enterprises to retain surplus workers for periodic spurts of intense work effort (“storming”) to fulfill quantitative targets by the end of the plan’s specified time span. Managers were rewarded according to the quantity of production when fulfilling or -- even better -- surpassing the plan. Thus, it always paid to increase technical production possibilities, both in terms of additional employment and accumulation of capital.

As a consequence of labor hoarding⁴ and high labor force participation rates, the labor market in the socialist economy was characterized by a high ratio of labor to capital. Intensive industrialization raised the general level of employment, increased inflow from rural areas into industrial work, and encouraged high female participation rates in the urban labor force. The weight of industrial jobs in total employment steadily increased over time. The trade and service sectors were neglected because they were not “productive” according to the Marxist concept of national income. Whereas services often account for more than half of total employment in an advanced market economy, in Poland services provided only about one-third of total employment prior to 1990. In comparison, in Russia in 1985, trade and services amounted to only 12 percent of all jobs (Freeman 1993).

To summarize, during the period of real socialism in Poland, employment was characterized by hidden unemployment and labor hoarding financed through “soft budget constraints”, high participation rates and the institution of wage income as an entitlement, and a high proportion of labor to capital and a concentration of labor in industry.

³ Gomulka (1986) argues that most socialist enterprises were highly profitable -- given the administered price structure. The effect, the ability to absorb labor beyond the needs of production, remains the same.

⁴ Labor hoarding has been estimated as 25 percent in Poland and 15 percent in Czechoslovakia (Rutkowski, 1995, p.5).

“Transformational recession”: why was unemployment growth delayed?

With the implementation of the radical transition and stabilization program in January 1990, excess demand for labor was exchanged for excess supply on the labor market. In 1989, the ratio of the number of jobseekers to advertised openings (the U/V ratio) was 0.05. That is, for each average jobseeker, there were 20 registered openings. By December 1993, the U/V ratio peaked at 133.

FIGURE 4.1

EMPLOYMENT AND PRODUCTION DURING THE “TRANSFORMATIONAL RECESSION”

Despite the emergence of a pool of idle labor, the percentage fall in employment has been smaller and has happened later than the slump in production. Between 1990 and 1993, employment in Poland fell 8 percent less than production. The “transitional recession” is illustrated by Figure 4.1 (source: Bell and Mickiewicz 1997).

The Polish case is not exceptional. Output falls in the former Soviet Union have been even greater than those in Central Europe, but without much open or registered unemployment. In Russia in 1991-92, state sector employment fell 3 percent, but output fell 30 percent (Layard and Richter 1995). Some branches and enterprises actually increased employment despite significant output losses. This strongly suggests that we cannot consider the unemployment in transition economies to follow the patterns typical of a business cycle.

TABLE 4.1

ANNUAL CHANGES IN GDP AND UNEMPLOYMENT (% CHANGE FROM PREVIOUS YEAR)

	1989	1990	1991	1992	1993	1994	1995
Russia: GDP	-	-	-13	-19	-12	-15	-3
Russia: Unemployment	0	0	0.1	0.8	1.1	2.1	3.5
Poland: GDP	0.2	-11.6	-7.6	2.6	3.8	3.0	6.5
Poland: Unemployment	0.1	6.1	11.8	13.6	15.7	16	15.4
Czech Rep.: GDP	1.4	-0.4	-14.2	-6.4	-0.9	2.6	4.0
Czech Rep.: Unemployment	0	0.8	4.1	2.6	3.5	3.2	3.4

Source: EBRD, national statistics.

Because the growth of unemployment has lagged output falls, it is important to mention some of the key findings on the nature of Poland’s transformational

recession. As a result of the monetary contraction integral to Poland's stabilization efforts, production decreased in nearly all sectors of the economy (Borensztein *et al*, 1993). In addition to the demand shocks from stabilization and liberalization, there were supply shocks from the dismantling of socialist resource allocation mechanisms and changes in the structure of prices on both factor and final goods markets. These supply forces caused a varied decline in output across newly unprofitable industrial branches which was not matched by a sufficient increase in potentially competitive sectors because of frictions and inefficient (monopolistic) market structures. Both of these forces can create unemployment; demand-based recessions tend to create fairly even levels of cross-sector redundancies which will tend to fall as the economy enters into recovery. Structural unemployment is harder to address, as it requires the redeployment of labor from declining to growing sectors.

FIGURE 4.2

DYNAMICS OF EMPLOYMENT, REAL WAGES, AND GDP IN POLAND, 1989-1995

Given these points about the nature of the falls in output, we can indicate some institutional factors which contributed to the delayed rise in unemployment during Poland's transformational recession. First, it is important to note that state-owned sectors throughout Central and Eastern Europe have been controlled by insiders (predominantly by workers in Poland's case⁵). As we shall discuss later in this section, the low level of dismissals in total unemployment suggests that the majority of employment reductions may be considered to be voluntary quits. State firms were largely reluctant to reduce employment at the beginning of the transition, in contrast to a typical western firm which would cut jobs during a recession.

Another reason why employment was not reduced further was that it would not have paid in the case where the government stepped back to re-introduce "soft budget constraints". The Mazowiecki government's program was not wholly credible in early 1990, since it was not obvious that there could not and would not be a return to the bailing-out of enterprises in financial trouble. Therefore, it seemed reasonable for state sector firms to choose a wait-and-see strategy.

⁵ On workers' control over state firms, see: Mickiewicz (1996), Socha and Sztanderska (1993).

When firms have faced financial constraints, pressures to shed labor were initially mitigated by wage restraints and limited reduction of the average work week (Coricelli and Revenga 1992; Fan and Schaffer 1994; Vodopivec 1995). This phenomenon characterized most transition economies. In Poland in 1990, for each one percent fall in the level of employment, there was a 1.7 percent fall in real wages. Wage flexibility was even greater in Russia than in Poland (Layard and Richter 1994). From early 1991 to the end of 1992, for each 1 percent fall in employment, there was a 2.4 percent fall in real industrial wages.

Bell and Mickiewicz (1997) note the contrast with the situation in East Germany. Because of pressure from trade unions, real wages were increased at the beginning of the transition to reduce the gap between salaries in East and West Germany. High labor costs were not matched by productivity gains, causing an exceptionally high level of unemployment in the former East Germany. The link between real wages and job shedding in the former GDR has been confirmed by econometric studies (FitzRoy and Funke 1995; Kalmbach 1995). This indicates that the elasticity of real wages played an important role in the initial delay of unemployment in Eastern and Central European transition economies.

It has been suggested that wage restraint could also have resulted from the imposition of an incomes policy, through an excess wage tax. Poland's excess wage tax (*popiwek*) was based on the partial indexation of the wage bill to the consumer price index. In contrast, Czech Republic's wage norms were fixed in nominal terms, so if inflation increased more than expected, then real wages would decrease in proportion to the inflationary overshoot. Nevertheless, Coricelli and Revenga (1992, pp. 26-27) argue that the *popiwek* was not the main reason for the initial wage restraint in 1990. In the first part of the year, the tax limit was not binding. During the second part of 1990, wage increases were greater than the norm and induced the accumulation of tax arrears, both in the second half of 1990 and during 1991.

Monetary policy was also relaxed in the second half of 1990 in light of some favorable, if premature, indicators that the economy would soon turn from recession to growth. Given the terms of the excess wage tax, many state-owned firms decided to increase real wages, either because they were optimistically expecting that the recession would soon finish soon or pessimistically anticipating that the government

policy would break and there would be a return to the “soft budget constraint”. Despite these relaxations, the transitional recession turned out to be much more protracted than expected, and in spite of some wavering, the government’s policies proved to be credible. The financial situation of a considerable proportion of state firms deteriorated even further. With unemployment benefits above the subsistence level, it was better for employees to quit those state enterprises which could not afford to pay wages. There were no strong expectations that the state would intervene, and wage arrears were not treated as legitimate claims on the government. This contrasts with the ongoing situation in countries such as Ukraine or Russia.

Another reason for slower growth in the unemployment rate may be because of an undercounting of the unemployment rate due to exits from the labor force. If people who quit or are dismissed leave the labor force completely, then these exits are not counted as a rise in the unemployment rate. In Poland, there has been a decrease in the activity rate but an increase in the numbers of those of working age. As shall be explained further below, the labor force has increased slightly despite a fall in the activity rate.

Mass layoffs: less frequent than expected

Legal and regulatory restrictions, as well as political pressures, slowed the increase in job reductions in Poland. The importance of redundancies, and mass layoffs in particular, has not been as great as initially expected. Figures 4.3a and 4.3b provide the proportion of those who lost their jobs through layoffs to the total unemployed, and the total rate of registered unemployment as a percentage of the active labor force.

FIGURE 4.3A

TOTAL REGISTERED UNEMPLOYMENT AND UNEMPLOYMENT FROM DISMISSALS

FIGURE 4.3B

DISMISSALS AS % TOTAL UNEMPLOYMENT AND REGISTERED UNEMPLOYMENT AS % OF TOTAL ACTIVE WORKFORCE

Figure 4.3a presents the data in terms of stocks in thousands of individuals, whereas Figure 4.3b presents redundancies and lay-offs as a percentage of total

unemployment. Figure 4.3a shows that the absolute number of laid-off workers peaked in February-March 1992, but did not really decline in appreciable numbers until early 1994 when the aggregate registered unemployment rate began to show improvement. The peak and then decline of redundancies in total unemployment suggests that labor shedding did not accelerate until the middle of 1991, and did not begin to be absorbed back into the labor force until mid-1994.

In Figure 4.3b, we can see that redundancies have never accounted for more than a minority of the total number of registered unemployed, 24.5 percent of the total in May and October 1992. By December 1996, this form of dismissal accounted for only 8.5 percent of the total unemployed. The fact that the stock of unemployed decreased does not necessarily mean that these workers were absorbed into jobs. In fact, as shown in Appendix 4.4, only half of the outflows from unemployment were to jobs⁶. Of the remaining percentage, only a small share is to training and education, as demonstrated by available figures for 1991 and 1992⁷. The remainder must include movement in and out of the official labor force. While this data is not strictly compatible, Labor Force Survey data for 1996 shows that the active labor force varied by 200,000 from February to August, equal to 1.5% of the workforce⁸.

In comparison with the figures on redundancies as a source of unemployment, people who have not previously worked, excluding school leavers, make up 12.8 percent of the registered unemployed. Including school leavers, 21 percent of the registered unemployed in December 1995 had not worked prior to signing on. As demonstrated later in this section, education is an increasingly important factor behind unemployment rates.

Nevertheless, the rarity of mass layoffs could have resulted from some other factors rather than just the preference to reduce the workforce slowly rather than quickly. Labor market regulations make dismissals much more costly in the case of mass layoffs, which refers to one-time redundancies of more than 10 percent of any firm's work force. At the beginning of the transition, legal provisions were introduced to require firms to make sizable severance payments if 10 percent or more

⁶ Outflows to jobs include regular jobs, intervention schemes, and public works.

⁷ GUS, *Biuletyn Statystyczny*, No. 2, March 1992, p. 34; February 1993, No. 1(423).

⁸ Interestingly, LFS unemployment rates are consistently a few percentage points below the registered unemployment rate. Much of this effect is due to eligibility requirements for other social benefits and services (see Góra 1996).

of its workers were laid off at one time. Employees made redundant in mass layoffs are entitled to both severance pay equal to three months' wages and sufficient notice of the layoffs. Employee representatives in workers' councils were given the legal right to respond to labor shedding plans with a counterproposal. Thus, significant employment reductions were costly and the short-run financial situation of a firm was often better when it restrained from firing people. Paradoxically, more than one manager of a state enterprise in Poland has been quoted as saying that his firm's financial situation made it impossible to dismiss employers. While this mechanism did not stop labor shedding, it did lead to delays in dismissing workers, in many cases until final bankruptcies were declared. Bankruptcies, in turn, also lagged behind the output slump, as shown below.

TABLE 4.2
NUMBER OF BANKRUPTCIES IN POLAND

<i>Year</i>	<i>Registered</i>	<i>Completed</i>
1990	149	59
1991	1250	656
1992	3661	2155
1993	5249	4324
1994	4193	4056
1995	2992	3246

Source: Domagala and Klukowska (1996), quoted in Bell and Mickiewicz (1997).

Both the numbers of registered and completed bankruptcies did not accelerate until 1992 and 1993, after the worst of the transformational recession. While this phenomenon can be attributed to any of a number of economic factors, the important point is that the delayed rise in unemployment is not unique in Poland's transition experience.

Restructuring, growth of the private sector and changes in employment

Earlier in this chapter, we mentioned that one of the most important reasons for the increase in unemployment in Poland was the recession of 1990-91. There was an inflow into unemployment from the active workforce when financial pressure on the state sector made it impossible to sustain the previous level of labor hoarding⁹.

⁹ See Góra and Lehmann (1991).

This is an aggregate effect resulting from the stabilization program, and would be evidenced by fairly consistent employment contractions across sectors.

However, the transition also changed relative prices and demand structures. The result is economic restructuring, which is observable through greater variability in output and employment across sectors (services, industry, and agriculture) as well as between industries. Inflows into unemployment has come from both state and private sectors. From near zero unemployment at the start of transition in January 1990, the jobless rate rose to 8.9 percent by the end of 1991. However, it has been argued that only in 1993 did restructuring become a crucial factor in inflows into unemployment.

Industrial and sectoral restructuring requires a shift in employment between branches and sectors. On this basis, shifts in the sectoral composition of employment can be interpreted as a measure of restructuring. The socialist economy had too many people working in agriculture, manufacturing, chemicals, and armaments industries and too few employed in trade, finance, and services, in comparison to OECD countries. As of the end of 1994, Hungary appeared to lead Central Europe in the sectoral reallocation of labor. According to OECD statistics, in 1994 26.2 percent of Hungarian employment was in manufacturing, compared to 30 percent in Poland and 34 percent in the Czech Republic. Moreover, Poland not only has the highest percentage of its labor force in agriculture (27 percent in 1994), but this level has actually increased during the transition (from 25.8 percent in 1992)¹⁰.

Industrial restructuring is also linked to the movement of jobs from large, industrial enterprises to smaller firms and the service sector. The growing share of small and medium sized firms was partly caused by the break up of some monopolies and large state enterprises into separate companies, and partly by the entry of new firms into the marketplace. Again, this movement from large to small companies suggests convergence towards the employment patterns seen in advanced market economies.

Last but not least, both the sectoral shift to services and the growing share of small and medium-sized firms were linked to changes in the ownership structure.

¹⁰ OECD (1996), *Short Term Statistical Indicators*, No. 1, January; GUS (1995), *Rocznik Statystyczny*, Vol. 55.

Typically, new privately owned firms operate in trade and the service sector. In mid-1995, the share of the private sector in GDP was 70 percent in the Czech Republic and 60 percent in Slovakia, Hungary and Poland¹¹. While the privatization programs in Central and Eastern European countries spurred private sector development, there are still questions about whether privatized firms have adequately changed the incentives of insiders and introduced effective, private owners. Poland has been relatively more dependent upon the *de novo* private sector than other transition economies¹²; private sector growth has been extraordinarily dynamic. According to official statistics, private sector output grew 15 percent in 1995, while the state sector shrank by 3 percent. Not all of this can be attributed to the privatization of SOEs. Private firms showed higher net profitability than public enterprises in 1996 (1.8 percent versus 1.6 percent), a rate of investment four times greater than state firms, and faster growth of exports¹³.

All the components of change described above imply the emergence of at least frictional unemployment. The structural adjustment of Poland's economy, combined with poor labor mobility and an unmodernized educational system, led to increased mismatch between workers and jobs. Evidence of mismatch can be found in regional patterns of unemployment, as well as in the concentration of joblessness by educational attainment and skill levels (more in part 4.2.3).

Early in the transition, some economists forecast the rapid emergence of widespread yet transitory unemployment. Aghion and Blanchard (1993, 1994) defined three stages of the evolution of the labor market. The first stage would be a "shake out" or decrease in state sector employment. This would result from price liberalization and the removal of subsidies for SOEs. Trade liberalization opens the economy to international competition, and domestic firms may reduce employment as part of a general drive to achieve cost competitiveness. Aghion and Blanchard, as well as others, expected large scale labor shedding early in the transition. In the second stage, the rising number of private sector firms would draw new hires from the pool of unemployed. In this manner, unemployment would decrease to its

¹¹ EBRD (1996), *Transition Report 1995*.

¹² See, for instance, Brom and Orenstein (1994), Coffee (1994), Mickiewicz (1996), various CERGE-EI working papers, and the annual *Financial Times* surveys.

¹³ *Rzeczpospolita*, 2 June 1997, p. 9.

equilibrium level. In the third stage, the growth of the private sector would depend upon its ability to bid workers away from the state sector, thus contributing to the natural attrition of jobs in the state sector. In this view, the appearance of unemployment is an indicator of restructuring, and it is assumed that the bulk of this joblessness will be transitional. Jobs lost in the state sector would be eventually matched by jobs created in the private sector.

There is nothing inherently wrong with this picture. Indeed, it has been observed that the initial growth of unemployment has been higher in those countries which were more successful in reforms, restructuring and further output recovery (de Mello, Denizir and Gelb 1996). However, as noticed above, there was a delay in the initial growth of unemployment and state firms were not as keen to reduce employment as originally expected. Much of this can be explained by insiders' control within state sector firms, and labor hoarding has continued throughout the transition period. This, in turn, slowed down the restructuring process in the state sector and impeded the improvement of firms' financial positions. To some extent, recovery was delayed. Economic growth can reappear through restructuring, i.e. a new organization of production which is better in terms of quality, is more cost-effective, and has been adjusted to market-determined relative prices. This chain of implications may help to explain a reported empirical paradox, "the negative association between registered unemployment and growth" in transition countries (de Mello, Denizir and Gelb 1996, p.18). If the above reasoning is correct, emerging unemployment can be seen as a measure of the speed of transition during its early stage¹⁴.

Unemployment by sector and ownership

Between December 1989 and June 1992, the state sector shed 27 percent of employment, and separations were concentrated in the least profitable sectors (Pinto and van Wijnbergen 1994, p. 4). However, several authors (among them Opallo 1995) have found that unemployment resulting from restructuring, especially of

¹⁴ A formal model, which corresponds more or less with this conclusion may be found in Aghion and Blanchard (1993). Also see: Berg (1994), Coricelli, Hagemeyer, and Rybinski (1995), Jackman and Rutkowski (1994). On the other hand, Boeri (1994) argues that level of unemployment is not related to the speed of transition.

industry, had not emerged as late as 1993. Data on state sector employment reveal that not only was there an aggregate reduction in total employment by 20 percent between the first quarter of 1990 and the fourth quarter of 1995, but also that there was a great deal of fluctuation in employment from the beginning of 1990 until the second quarter of 1993.

FIGURE 4.4 STATE SECTOR EMPLOYMENT

As shown in Appendices 4.2 and 4.3, the greatest reductions in employment by percentage were in state-run agriculture, with trade and repair second. A significant part of the reductions in trade and repair have been caused by the "small privatization" of retail outlets. There is greater variation in employment in industry as compared to the budget sector divisions of public administration, health, and education. Budget sector employment actually increased between 1990 and 1995, while industrial employment was not only reduced to a greater extent but also subject to greater fluctuation.

Further credence is given to the assertion that restructuring unemployment was delayed comes from the findings of Coricelli, Hagemejer, and Rybinski (1995, p. 80), which notes that in 1992, the structure of unemployment by sector of previous employment was proportionate to total employment. They conclude that at this time, unemployment from sectoral restructuring had not fully emerged.¹⁵

Perhaps somewhat unexpectedly, Coricelli, Hagemejer, and Rybinski found that 40 percent of unemployment recorded in the first Labor Force Survey came from jobs lost in the private sector. This may be due to several reasons: the reclassification of cooperatives as private sector enterprises, high rate of failure of small scale private ventures, greater ease in layoffs in the private sector, or higher mobility of private sector employees.

In a survey of 200 firms carried out at the end of 1993, Belka and others (1995) found that most firms have laid off at least some workers. Only 10 percent of

¹⁵ At this time, 36 percent of the unemployed had previously worked in industry, 16 percent in trade, 14 percent in construction, 8 percent in agriculture, less than 5 percent in transport, and 22 percent in other sectors.

SOEs and privatized SOEs claim not to have laid off any workers in the two years before the survey. Only 20 percent of new private firms have laid off workers, and these have mostly been very small in scale. This is not surprising, as private firms tend not to take on more workers than they need. About 70 percent of both commercialized and traditional state-owned firms in the survey have laid off more than 500 workers in total. Yet mass or group layoffs have been rare; only 30 percent of firms originating in the state sector and 9 percent of private firms have used this route.

Why state sector firms kept hoarding employment: micro data

Even with the rise in labor shedding after 1992, numerous authors have concluded that Polish state-owned enterprises still may be hoarding a considerable amount of labor. This is despite the large fall in industrial employment, and total unemployment rates in the range of 15-16 percent through 1995. Belka and others (1995) found that 35 percent of “commercialized” state firms and 25 percent of traditional SOEs believed that their firms were overmanned by more than 10 percent. While only 35 percent of “commercialized” state firms and 45 percent of traditional SOEs believed their labor force was the right size, 60 percent of new, or *de novo* private sector firms thought employment was at the proper level. Moreover, no *de novo* firms in their survey judged that they were more than 20 percent overmanned, and 23 percent thought employment was too low. The question is, then, why firms do not reduce their number of employees if they believe too many are on the payrolls. Table 4.3, reproduced from Belka *et al.* (1995), presents results based on survey interviews.

Keeping extra workers does impose a financial burden on companies, as the first line of the table reveals. Optimism was high about the strength of the economic recovery; the expectation of increased demand was the most important reason cited by firms for keeping on excess employment. Social reasons were also significant, and more so in the state-owned firms. Only one-third of privatized enterprises mentioned social concerns as a cause behind not shedding more labor, whereas for 61 percent of commercialized SOEs this was important. The lower frequency of worker resistance in corporatized state firms may indicate that employees’ control may be relatively

weaker there, as argued elsewhere (Mickiewicz 1994). From this table, the clear conclusion is that worker influence is the most important influence behind the reluctance of the state sector to shed all its excess labor.

TABLE 4.3

WHY FIRMS DO NOT REDUCE EMPLOYMENT IF IT IS TOO HIGH

	% Possible Respondents Ownership Type			
	POE	PRE	SA	SOE
a. Workers cause no financial burden	0	0	4	4
b. Recovery expected	50	52	65	51
c. Legal obstacles	33	33	4	7
d. Social reasons	50	29	61	56
e. Workers' resistance	0	33	17	30

Note: POE = *De novo* private firms SA = Corporatized ("commercialized") state owned firms
 PRE = Privatized firms SOE = "Traditional" (unincorporated) state owned firms

Source: Belka, Estrin, Schaffer, and Singh (1995).

Whatever the situation in the state sector, one may reasonably argue (as does Kornai, 1992) that the privatization of state-run firms would lead to the shedding of labor. However, many of the privatizations undertaken in Poland have been insider-controlled (as they have been in the most other transition economies, except the Czech Republic). Even in cases where ownership was transferred to foreign investors, contract provisions were negotiated to protect existing employment. As a consequence, the employment policy of privatized firms did not change much after privatization and massive reductions in employment were not implemented, at least in the short run.

A comment on the private sector may be added. Legal reasons appear to be an important factor for some private sector firms, but constraints linked to employees' control are not binding. This indicates that labor market regulations, which make dismissals more costly, are affecting businesses in Poland, and especially in the private sector. Probably these regulations also have an indirect impact: when dismissals are more expensive, new employment becomes more costly because flexibility is lost.

Unemployment during the economic recovery

It is assumed usually that as an economy grows, more jobs will be created than destroyed. However, since 1993 the Polish economy has been expanding, but jobs have been created at a much lower rate than the aggregate growth rate. This means that fewer people do the same amount of work, or in other words, the formal index of labor productivity increased. In Poland and the Czech Republic, renewed economic growth has been accompanied by a creation of outflow from unemployment to jobs which has roughly matched the rate of job shedding. This creates a stable stock of unemployment, with roughly equal inflows and outflows. In 1993-94, unemployment continued to grow despite economic recovery. Afterwards, the unemployment rate stabilized and slightly decreased but in disproportion to the ongoing recovery. Similarly, employment did not start to grow, as illustrated by Figure 4.5, below.

FIGURE 4.5

EMPLOYMENT AND PRODUCTION AFTER THE "TRANSFORMATIONAL RECESSION"

There may be several reasons why employment did not start to recover after the recession. The state and private sectors are quite different and should be considered separately.

The situation in the private sector is easier to grasp. The impact of the "transformational recession" in the private sector has been much less severe because the new private firms were not burdened by socialist era plant, products, or debt. Both output and employment in the private sector have grown since the beginning of transformation. Nevertheless, one may speculate on the possibility of a slowdown of employment growth in the private sector. New private firms emerged mainly in the service sector and wherever the entry barrier of capital has been lower. This explains why the labor productivity index has been lower for the private sector: it has been concentrated in labor-intensive branches. However, new firms have been able to accumulate capital through retained earnings and their credibility with banks has grown. Thus, with more financing available, new private firms have been able to invest more and acquire more capital stock. One may expect more emphasis on capital accumulation, and slower employment growth in the near future.

Meanwhile, the state sector lost employment continuously during the recession, even after accounting for privatization¹⁶. Employment did not begin to recover after production growth reappeared. If we assume the dominance of insider control within the state sector, then increased wages and/or additional capital accumulation will be preferred to increased employment. Expanding employment is attractive only if it increases the average income of the insiders more than either a direct increase of incomes through higher wages, or an indirect effect through capital accumulation and higher labor productivity in the future. As a result, the incentives to increase employment are weaker in the state sector.

During the transformational recession, state sector employees accepted a significant decrease in real wages as a trade-off against sustained employment. With the recession over and the unemployment rate stabilized or even falling, there is evidence of growing pressure for higher wages; real wages grew significantly in 1995. In addition, there is indirect evidence. Growing pressure for real wages may be measured by the number of strikes and other forms of industrial action.

There is evidence that industrial action appears where pressure or threat of unemployment has weakened, i.e. where employment was growing. Bell and Mickiewicz (1997) have proposed that the trend of rising pressure for real wage increases implies a slower decrease of unemployment. Regression results show a relation between strike action and change in employment across the 49 administrative regions of Poland. The *województwo* of Warsaw is on the upper end of the least squares line, meaning that while employment is growing and Warsaw has the lowest unemployment rate in the country, industrial action is much more frequent than in the other *województwa*. Because the labor market is becoming more favorable for workers, they feel secure enough to strike and demand higher pay. In regions with high unemployment levels, there is a correspondingly lower frequency of industrial action, indicating a much less secure job market.

¹⁶ In the "enterprise sector" — firms with more than five employees not including farms and owner-operated businesses — 51.1 percent of employment was in the state sector in the fourth quarter of 1996, down from 56.8 percent for 1995 as a whole. (GUS, *Biuletyn Statystyczny*, No. 4, May 1997, p. 32). However, when all employment is counted, 65 percent of jobs and 60% of value added is in the private sector (*Rzeczpospolita*, 2 June 1997, p. 9), indicating the dynamic growth of the small private sector as well as the continuing role of small farms. As indicated in this chapter, some job separations were in all likelihood delayed workers' job separations until their small ventures became profitable.

4.2.2 Labor Flows into and out of Unemployment

In this section we turn from a general employment/unemployment picture to a more detailed analysis concentrated on the structure of unemployment and characteristics of inflows and outflows.

Before 1990, the Polish labor market was characterized by an acute labor shortage. As noted earlier in this section, in the 1980s there were on average twenty advertised vacancies for each registered job seeker. In these conditions, there was very little risk attached to losing one's job. Beyond the legal obligation of able persons to work and the state to provide jobs, the exceptionally high demand for labor resulted in high job turnover and upwards pressure on wages, particularly at lower skill levels. Despite the government's efforts to reduce labor mobility, the typical annual turnover rate in socialist economies was in the range of 15-20 percent¹⁷. Unemployment was virtually non-existent and economic insecurity for employees was minimized.

Small outflows from unemployment

As stated above, inflows from (state sector) employment to unemployment have been slower than expected in transition economies, even despite radical structural change (Boer 1994). In the Czech Republic, Poland, and Hungary, the monthly inflow to unemployment has averaged 0.5 percent of the labor force, while the OECD average is 1.5 percent. Unemployment has accumulated in Central Europe because of a very slow outflow rate from unemployment to (private sector) employment. In the Visegrad countries, on average 0.8 percent of the labor force flow out of unemployment each month, as compared to 1-1.6 percent in OECD countries. However, not all these flows are to jobs; many people are leaving the labor force altogether. Employment has fallen in absolute numbers since 1990. In 1994, 2.5 million fewer people were employed in the Polish economy than in 1989.

Much of the employment growth in the new Polish private sector was based on direct transfers from the state to private sector. Similarly, Household Budget

¹⁷ This level is similar to that observed in market economies, but for very different reasons.

Survey data in Hungary, the Czech Republic, and Slovakia suggests that most transfers from employment in the state sector to the private sector occur without an intervening period of unemployment¹⁸. Thus, it seems that either there has been a bias in private sector employment against unemployed people, or state sector employees were effectively searching for jobs in the private sector, being more efficient in this than unemployed people.

Possible factors for this may return to insider influence. A state firm's workers may choose to accept lower real wages to save employment, even in firms which are slowly deteriorating towards bankruptcy. The traditional organizational culture of state firms permitted employees to spend work time searching for new jobs. It was technically much easier to look for a job while employed, because government labor exchanges do not yet function well or efficiently enough and private employment agencies are still underdeveloped. Employees in failing firms often tried self-employment, and would leave their state job only if the venture proved successful.

When insiders control state-owned firms, an employee would be fired only when accepted by the work council. Being unemployed could thus present a negative signal from the perspective of a potential private sector employer. Having been fired from a job in the state sector was often understood to be the result of that worker's low productivity and/or offenses against work discipline (such as drinking on the job or small-scale theft of enterprise property). That is to say, "one would expect the enterprises to get rid of the employees who were not well-integrated with the rest of the workers" (Socha and Sztanderska 1993, p. 139). Those two factors (job-search competition from employees and negative signaling attached to unemployment) have made finding a job more difficult for the unemployed.

From this uncertainty, one clear message is that the search activity may be impeded by unemployment, and employed people are seen as more employable, either because they are (in terms of skills or training) or because employers see them as such. Unemployed biases employers against hiring. It is not just the incidence but also the length of unemployment which will impact the efficiency of job searching.

¹⁸ Another result from Hungary is that the unemployed tend to look for, and find, jobs in SOEs.

Digression on a seasonal pattern of outflows to employment and U/V ratio

One way of estimating how much demand there is for unemployed labor is to compare the number of advertised vacancies with the number of registered unemployed. U/V ratios for late socialism and the transition period. In 1995, for every vacancy there were 75 unemployed people. As there is a tendency to overreport unemployment, there is also a tendency to underreport the number of vacancies. It is estimated that about one-third of job openings are advertised in market economies; the underdeveloped state of the unemployment registry suggests that this figure is even lower in Poland. It has been estimated that only about 5-6 percent of new hires were matched via the employment exchange. Figure 4.6 charts the monthly aggregate ratio of the unemployed and vacancies listed with the government employment offices.

FIGURE 4.6
NUMBER OF UNEMPLOYED PER REGISTERED VACANCY

Vertical lines are drawn through January of each year. From December to February, there is a sharp and increasingly large jump in the number of job seekers per vacancy. This is opposite to what might be the expected pattern, where the influx of school leavers should raise this ratio in the summer months. However, analysis of the data shows that most of the fluctuation comes from the doubling in the number of offered vacancies in the summer and early autumn. For example, in February 1995 there were 30,400 vacancies and 2.8 million unemployed, giving a U/V ratio of 93.16. In August 1995, there were 51,500 advertised vacancies and 2.7 million unemployed, with the U/V ratio being 52.23. In December 1995, job opening were down to 20,500; with 2.6 million unemployed, the U/V ratio was back up to 128.

At first glance, it appears that the outflow from unemployment to jobs shows a similar oscillation. Once plotted, a strong inverse relationship between the U/V ratio and outflows from unemployment became visible.

FIGURE 4.7
UNEMPLOYMENT/VACANCY RATIO AND OUTFLOWS FROM UNEMPLOYMENT TO JOBS

The association between these two figures for the available months (November 1992 to December 1995) is represented by a correlation coefficient of -0.7112. We can interpret this figure as showing that there is a link between the number of vacancies registered at labor offices and new job starts of formerly jobless people -- in other words, flows out of unemployment. So, while the vacancy figures may not capture the full range of available positions, it does appear to be a fair indicator of the number of matchings in the labor market.

Unfortunately, official sources do not provide a breakdown of listed vacancies by sector. It is entirely possible that the doubling of the number of vacancies comes from the agricultural and construction sectors. Outflows to jobs are higher in April-May and October of every year. Examination of the employment in the agricultural and construction sectors -- which each employed one-seventh and one-fifth the number of people in industry at the higher levels of 1991 -- shows less variation than in the aggregate figures. It can be concluded that even with these considerations, the conclusion that this indicator does provide a fair indication of changes in the labor market can be upheld.

Unemployment benefits and inflows and outflows from unemployment

So far, we have concentrated on factors which are "pushing" people out into unemployment. However, we should also consider factors that are "pulling" people, or making continued low wage employment and/or staying outside the labor force less attractive than unemployment.

The low probability of finding a job after becoming unemployed may have effects similar to low unemployment benefits: workers are inclined to stay in their jobs even if real wages fall. Wherever workers cannot easily find another job (or become self-employed), there is an incentive to stay with a firm even if the worker is paid less, or barely anything at all. In Poland, private sector growth and job creation have been strong even during the "transitional recession" period. Rising employment in the private sector strengthened the incentives to quit one's job. However, a significant share of new hires in the private sector came from direct transfers from state to private sector jobs¹⁹.

¹⁹ That is, without an intervening period of unemployment.

The first factor behind this source of rising numbers of jobless is the legal situation regarding eligibility criteria for unemployment benefits. The level of benefits, especially in relation to average earnings, influences recorded levels of unemployment. In Poland, eligibility for unemployment benefits was initially very loose and benefits were granted for an indefinite duration. Until September 1990, the lack of any requirement of a previous work record allowed people to be eligible to receive benefits despite not having been employed. The criteria have been tightened, but at least some of the rise in registered unemployment in 1990 came from outside the actual labor force. Despite changes to the Law on Employment, there are still a number of exceptions to the work requirement through which people who are not actively seeking a job are still registered as unemployed.

In contrast, unemployment benefits in Russia have been very low, to the point of being almost worthless, and benefits tend to be adjusted in relation to price rises only after long lags. A more generous benefit system may predispose state employees to accept job cuts in their enterprise when it does not have enough money to pay full wages. Likewise, tight eligibility requirements, as in the Czech Republic, or benefit levels below subsistence levels, as in Russia, may discourage workers from relying upon unemployment benefits. The clear conclusion is that looser benefit eligibility will be reflected in higher recorded unemployment rates.

TABLE 4.4
LABOR FORCE FLOWS ('000s)

	<i>1989-1991</i>	<i>1992-1993</i>
Change in stock of labor force	209	51
Change in stock of employment	-1947	-682
Change of stock in unemployment	2156	733
Inflow to labor force	2495	1284
Of working age	1136	1210
Additional	1359	74
Outflow from labor force	2286	1233
In flow to pensioners	2286	1233

Source: Góra (1996).

Góra (1996) maintains that Polish unemployment levels are not simply caused by separations. There has been a considerable inflow of people from outside the labor market into registered unemployment who claimed benefits without being engaged in job searching. As presented in Table 4.4, these “additional” inflows into the labor force have been possible because of inadequate monitoring and a lack of deregistration procedures. The entrance of people into the labor force to gain benefits rather than seek employment is further evidenced as a difference between the statistical office’s figures on registered unemployment and the Labor Force Survey (LFS) figures, which only count those actively searching for employment. In the first LFS, 20 percent of unemployment could be accounted for by reentrants to the labor market. Reentry was more frequent amongst unemployed women (26 percent) than men (15 percent). Of the men who reentered the labor force to look for work, two-thirds had previously taken early retirement or were on disability (Coricelli *et al* 1995, p. 79).

This excessive registration was encouraged not only by loose eligibility requirements for benefits, but also because access to other social services was linked to unemployed status. The bulk of claimants using unemployment as a means to other social benefits consisted primarily of long-term unemployed women, especially those with children. Until November 1992, access to free health care depended upon being registered as unemployed. Since this link was severed, there has been a convergence of the Labor Force Survey and GUS unemployment figures.

It should be noted that unemployment levels are also likely to be underestimated by exits from the labor force. If enterprises eliminate their child care facilities, mothers may be forced to stay home with their small children rather than work. Discouraged workers may stop looking for employment and drop out of the labor force completely. At least a proportion of the fall in the recorded labor force is due to a rise in unrecorded or informal private sector employment. There may also be unrecorded unemployment, as described above, depending on the restrictiveness of the benefit regime. For all these reasons, the inflation of unemployment registration by social benefit claimants may be partially offset by the underestimation of unemployment when people who lose their jobs leave the labor force entirely.

Another finding is that people who are receiving benefits may not be as active in looking for work as might be hoped. It is possible that there has been little change in some people's behavior from the socialist-era labor shortage; if they believe that there is still competition for workers, unemployed people would passively wait to be contacted by employers²⁰. A more rational explanation is that people put off taking a new job until their benefits have expired. From the beginning of 1990 until the employment law was changed in September 1991, there was no time limit on unemployment benefits²¹. From September 1991, most claimants are eligible to receive benefits for twelve months only, and this on a decreasing replacement scale²². In 1992, the average duration of unemployment was eleven months (Coricelli *et al* 1995, p. 81). Indications are that the outflow rates from unemployment rise significantly in the thirteenth and fourteenth months after separation²³. However, finding a job becomes more difficult after that period, and a proportion of unemployment in Poland is becoming a "stagnant pool" rather than a temporary state.

Long-term unemployment

Growing concern is directed towards the increase in long term unemployment, which covers spells of joblessness longer than one year. In the calculation of economic uncertainty, the threat of unemployment is much greater to welfare if long term unemployment is high and/or rising. In a market economy, there is a great deal of mobility in and out of jobs and unemployment. In the United States, the average time spent between jobs is two to three months, even during a recession. Long term unemployment in OECD countries affects a minority of those entering unemployment. In transition economies, there has been no large shake out of the state sector, and the inflow rate to unemployment has been low (Boeri 1994). Many voluntary leaves are either into a job or out of the labor force. Yet as already noted, if the outflow rate is also low, those who become unemployed tend to stay unemployed.

²⁰ Such a view would be supported by sociological studies which emphasize the failure of adaptation strategies of older or less skilled workers, particularly those formerly employed in large state industries.

²¹ "Trudniej o zasilek", *Gazeta Wyborcza*, 14-15 September 1991.

²² For the first three months, benefits are at 70 percent of the average vacation pay, falling to 50 percent for the next six months and 40 percent for the final three months.

²³ This is similar to a situation in the other transition economies, see for instance: Vodopivec (1995).

In the May 1992 LFS, 25 percent of the unemployed in Poland had been out of work for one year or more, 35 percent had been jobless for between seven and eleven months, and only one-fifth had been unemployed for fewer than three months (Coricelli *et al* 1995). By late 1993 through 1994, the long term unemployed had increased, accounting for about 45 percent of total unemployment in Poland. The number of long term unemployed rose from 1.29 million in December 1993 to 1.33 million in September 1993.

After this date, there has been a decrease in the absolute number of long term unemployed, who now compose a smaller percentage of a gradually falling number of total jobless. In December 1994, the long term unemployed numbered 1.26 million. By March 1995, this total had fallen to 1.17 million, and then it fell further to 1.09 million in June and under one million, to 982,000, in December 1995. As a proportion of all registered unemployed people, the long term unemployed were 44 percent in December 1994, 42 percent in March 1995, 40 percent in June, 39 percent in September, and 37 percent in December 1995²⁴.

The gradual lowering of the proportion of long term unemployment is encouraging. It also suggests that as employment increases during Poland's continued economic expansion, this rate may fall further. However, as shown in section 4.3.3, there are indications that the Polish labor market is becoming increasingly stratified, and the people most vulnerable to long term unemployment may be characterized in general terms.

Exits from the labor force to retirement

The May 1992 LFS found that 8.6 percent of the unemployed quit work in order to take early retirement (Coricelli *et al* 1995, p. 60). Góra (1996) calculated that between 1989 and 1991, 2.29 million people left the workforce to enter early retirement, with another 1.23 million leaving in 1992-93. As we saw in Chapter 3, the number of pensioners has soared from 7.1 million in 1990 to 8.9 million in 1994. Since the population of Poland is 38.5 million, more than one in four of its population receives a pension (including retired farmers and disability pensioners). The numbers of retirees from employment rose from 2.4 million in 1990 to 3.2 million in 1994.

²⁴ *Biuletyn Statystyczny*, No. 1, February 1996, p. 43.

While early retirement may have helped some older workers to avoid becoming unemployed with uncertain hopes of finding a new job, the rise in the ratio of pensioners to employee contributors to the social insurance system has led to an unsustainable fiscal burden. However, the political clout of pensioners means that their benefits have been preserved, probably at the expense of active labor market and income support policies.

Encouraging early retirement has been used in other transition countries as a part of anti-unemployment policy. Vodopivec (1996) argues that this policy has been quite costly, both in terms of a financial burden of pension obligations and lost output. In addition, the shedding of labor through early retirements is not creating opportunities for young workers, as retirements tend to be concentrated in sectors and regions of high unemployment.

4.2.3 The Structure of Unemployment and Mismatch in the Labor Market

This section describes temporary and persistent mismatch in the labor market. Like other market economies, patterns of persistent mismatch are appearing in Poland. There is much less demand for unskilled than skilled workers. Youth unemployment rates are higher than for older age groups. These patterns are consistent with those in OECD countries, and we can conclude that the Polish labor market has already become more similar to those in advanced industrial economies. It has long been anticipated that the transformation of the Polish economy would lead to more temporary rises in unemployment. Whether it is the result of a demand shift or structural shocks, short term unemployment rises of this type should disappear in the medium to long term as people relocate or retrain. We have yet to see to what extent the ongoing economic growth will reduce the stock of total unemployment, and thus, the longer run proportion of winners and losers.

Education and skills

Educational attainment, and particularly university education, may be the most important factor in deciding success in job searching. Amongst the unemployed, a high proportion have basic or secondary vocational education. The May 1992 Labor

Force Survey (LFS) showed that these groups made up 37.8 percent and 25.8 percent of the total number of unemployed people. In September 1996, GUS data showed that those with basic education accounted for 38.1 percent and secondary education 20.9 percent of the unemployed.

If the incidence of unemployment by educational attainment level is examined, unemployment rates are negatively related to education. Only 5.5 percent of those with higher (university or other tertiary) education were unemployed according to the 1992 LFS (Coricelli *et al* 1995, p. 79), in contrast to an overall unemployment rate of 12.6 percent in the second quarter of 1992. This trend has continued through the recovery; in the fourth quarter of 1995, the overall unemployment rate was 13.1 percent, but people with primary and basic vocational education experienced an unemployment rate of 15.6 percent²⁵.

Monthly rates of inflow into unemployment reveals that school leavers compose a large proportion of the unemployed. Góra (1995) notes that about three-quarters of school leavers sign on as unemployed, and most of these for three reasons. First, school leavers sign on as a precautionary measure in case they are not able to find work immediately. Second, before October 1993, school leavers were entitled to claim full benefits. Third, people who are registered as unemployed can get payment for enrolling in courses aimed at developing commercial skills. The fact that school leavers are enrolling in these supplemental courses indicates that the educational system is not meeting the needs of the job market. Góra argues that it would be more efficient either to provide these skills in schools, or to enable young people to undertake subsidized training without having to register as unemployed. Besides being costly, the present system means that nearly every market entrant starts off by being unemployed. This can have important psychological effects, at the very least.

The World Bank's report on poverty in Poland (1995) found that in 1993 the monthly exit rates from unemployment for people with post-secondary education (22 percent) were three times that of those with only primary education (8 percent). In comparison to the unemployed with primary education, university education trebled the probability of finding work within a specified time period. Góra (1996) finds that tertiary education improves the chances of moving from unemployment to

²⁵ *Biuletyn Statystyczny*, No. 1, February 1996, p. 44.

employment, while people with vocational education were much less likely to make that transition. Similar to the direct relation between educational attainment and income (Kudrycka 1993), education greatly improves the chances of exiting unemployment.

However, the benefits of education do not equally extend to both sexes. It appears that qualified women have a harder time finding work than do similarly educated men. According to official data²⁶, 42 percent of unemployed women have secondary or higher education, while only 23 percent of unemployed men have this educational level. Amongst unemployed men, the majority (57 percent) have vocational education. The most difficult jobs situation is for young women with basic vocational education, and in the countryside the difficulty extends to women with a high school education. While unemployment rates are falling amongst most other groups, the unemployment rate for women in rural areas with primary or vocational education continued to rise through 1995. Abilities in foreign languages (English and German especially) and residence in large cities increase women's employability, often as an assistant or secretary.

TABLE 4.5
NUMBER OF STUDENTS ENROLLED IN EDUCATION (THOUSANDS)

	1990/91	1991/92	1992/93	1993/94	1994/95
Elementary	5287.0	5310.5	5312.6	5278.4	5195.6
High school	445.0	499.8	555.8	602.4	648.6
Technical secondary	636.6	671.7	709.2	764.6	812.0
Vocational secondary	814.5	806.2	792.8	769.5	745.8
Tertiary or university	403.8	428.2	495.7	584.0	682.2
No. of graduates	56.1	59.0	61.4	64.2	70.3

Source: *Maly Rocznik Statystyczny*, 1995, p. 153.

There are strong indications that young Poles have responded very quickly to the demand for labor in the market economy. Between the 1990/91 and the 1994/95 academic years, the number of students enrolled in tertiary education increased by nearly 70 percent. Fewer students are enrolling in vocational secondary schools, and there is a strong likelihood that this reflects the high unemployment levels amongst this educational group. In contrast, there has been a sizable shift of students to technical secondary schools and more academically oriented high schools. While

²⁶ Reported in "Kobieta szuka pracy", *Zycie Warszawy*, 16 October 1996.

youth unemployment rates are still high, these are clear signs that Polish students are pragmatically responding to the clear links between education and employment opportunities.

Age and unemployment

In general, unemployed people in Poland are quite young. In 1992, 85-90 percent were under 44 years of age. Between one-third and one-quarter of men and women between 18 and 24 years of age were unemployed (Coricelli *et al* 1995, p. 77). While people aged 15-24 have an unemployment rate more than double the national average (30.9 percent in 4Q1995 against the aggregate LFS figure of 13.1 percent), school leavers tend to leave the unemployment register quickly. People over 45 spend a longer time finding new work, and the duration of unemployment tends to be longer. Góra (1996) found that people over 55 were much less likely to reenter employment once made jobless.

Regional distribution of unemployment

The growth of unemployment in Poland has been marked by sizable differences across regions. Unemployment rates are generally higher in urban areas, but Warsaw and regional centers such as Krakow and Katowice have much lower rates than smaller cities and towns. The May 1992 Labor Force Survey identified 70 percent of all the unemployed as urban residents, and 30 percent as rural dwellers²⁷, with the overall unemployment rate of 12.9 percent varying from 9.6 percent in the countryside to 17 percent in towns with 20,000 or fewer residents (Coricelli *et al* 1995, p. 75). In the fourth quarter of 1995, the overall jobless rate of 13.1 percent was distributed from 13.7 percent in urban areas to 12.2 percent in rural areas. While there has been a considerable improvement in the urban labor markets, unemployment in rural regions has been creeping up and in 1995 was fluctuating around 11 percent to 13 percent²⁸.

Regions dominated by heavy industry are affected by higher unemployment than commercial and capital cities. Worst affected are small towns with fewer than

²⁷ Information from the May 1992 Labor Force Survey comes from the chapter by Coricelli, Hagemeyer, and Rybinski (1995).

²⁸ *Biuletyn Statystyczny*, No. 1, February 1996, p. 44.

20,000 residents. Many towns have been hard hit by the failure of state enterprises which were the main employer in the area. The lack of demand for services in more rural areas, worsened by falling incomes in farming families as well as unemployment in towns, reduced the generation of jobs in the small scale private sector. In western Poland, problems of rural unemployment have been compounded by the collapse of state farms and the slow progress of land privatization. Overall, regional imbalances appear to be greater than in market economies. This leads to low outflow rates, and the threat of a building up of concentrations of long-term unemployment, with its concomitant effects for poverty and crime.

Indicators of regional mismatch

Evidence of regional mismatch can be found by finding the coefficient of variation for unemployment and vacancy rates across regions. In this analysis, the variation in unemployment by rates by *województwo* is presented for four points in time, which were chosen to relate to the four freely contested presidential and parliamentary elections.

These figures suggest that from 1990 to 1993, regional disparities in unemployment levels increased dramatically. After 1993, it appears that not only has the aggregate unemployment rate fallen, but regional differences have become less significant. While there are still considerable differences between the extremes of the very low unemployment rates in urban centers such as Warsaw and the desperately high levels in the eastern, agricultural region of Suwalki, there are general indications that job creation is becoming more widely spread.

The potential for job creation in the regions is especially important because the level of migration within Poland has not increased after 1989, nor has the decline in unemployment from 1994 led to a substantial redistribution or migration of labor across regions. Migration in post-communist countries has been impeded by the lack of efficient housing markets. This is due not only to the physical shortage of housing units, but also because of the persistence of state sector rent controls and uncertain property rights, pending restitution and housing privatization decisions.

TABLE 4.6

LABOR MARKET MISMATCH: *WOJEWÓDZTWO* UNEMPLOYMENT RATES

	<i>Standard deviation</i>	<i>Variation (Stdev/mean)</i>
November 1990	0.0210	0.2994
November 1991	0.0411	0.3029
September 1993	0.0518	0.3050
November 1995	0.0498	0.3004

Source: Author's calculations from GUS data.

A clear alternative to inter-regional migration has been to seek temporary (and often illegal) work abroad. Yet contrary to expectations, after 1989 there has been no significant surge in the flow of highly-qualified employees out of the country. The traditional pattern of temporary work in Western Europe has changed: economic emigration has become more focused on less qualified employees, while greater rewards for education and skills have been available within the country (Okolski, 1996) -- as shown in the preceding section on education.

4.2.4 *Conclusions on Unemployment*

i. Initial delay in growth of unemployment.

Contrary to initial expectations, there was an initial delay in the growth of unemployment in Poland. One likely cause of this delay was the high elasticity of state sector real wages during the initial period of "transformational recession". A contrast can be made between Poland and East Germany, where upwards pressure on real wages resulted in very high unemployment. Elasticity of real wages in pre-privatization firms can be interpreted as a strategic preference for sustaining employment through lower real wages. Incomes policy played a relatively minor part in constraining wages.

Other factors for the lag in labor shedding include: initial optimism about the speed of recovery, initial incredibility of hard budget constraints, laws on severance pay and mass lay-offs, and labor force exits to retirement or otherwise.

ii. Job creation during recovery slowed by wage and investment decisions.

While the unemployment rate is falling from its peak of 16.9% in August 1993, the rate of employment creation/unemployment decline has lagged the pace of economic growth. The reasons for this slower decrease in unemployment can be differentiated between the state and private sectors. Wage pressure is growing in industrial regions where employment is rising, as evidenced by the increase in industrial actions. Whereas state sector firms chose to restrain wages rather than shed jobs during the recession, they are now choosing higher wages instead of increased employment, which again is a result of insiders' control.

In contrast, the private sector has accumulated enough financial capital to switch from labor-intensive to more capital-intensive activities. This is evidenced by the high investment rates in private enterprises. The concentration on capital investment may also influence the current lagged expansion of employment.

Characteristics of the unemployed individual can also play a part, whether because state sector employees are actively competing with the unemployed in job searching, or because having been dismissed from the state sector can act as a negative signal to potential employers.

Further state sector-unemployment-private sector flows will be affected by the expected present wage in the private sector compared to the state sector. Official income data shows that private sector wages are no higher than state sector pay, and there is increased pressure for wages. Now that employment in state enterprises has already been reduced, the remaining public sector jobs might actually be more secure than those in the private sector.

iii. The benefit system will influence level of registered unemployment.

The eligibility and duration of employment benefits adversely affect job searching activity in the initial period of unemployment, when searches could be most successful. The time structure of unemployment benefits does not induce the unemployed to start search for jobs early. As a result, many of the unemployed find themselves trapped in long-term unemployment. Also, inflows from outside the labor force into unemployment, which inflated unemployment figures, were attracted by the

linking of social welfare programs such as free health care to being registered as unemployed.

iv. Labor market characteristics increasingly similar to in advanced market economies.

While a percentage of unemployment in Poland is transitory, and this should be reflected by a sustained, gradual reduction in total unemployment. However, examination of the characteristics of unemployment indicated that the labor market is converging with Western Europe. Unemployment tends to be concentrated within unskilled employees and young people. The need for adaptation of the educational system is reinforced by the premium received for higher education in the labor market. Higher educational attainment reduces the probability and duration of unemployment, and increases the wages of those in employment.

v. Regional differences in unemployment are high, but may be falling.

There are very sizable variations in the regional level of unemployment. However, these disparities appear to have stabilized and may be falling. A computed index of inter-regional variation has an inverted "U"-shape: it grows with the beginning of the "transformational recession", but since 1993 has been declining.

In conclusion, unemployment posed the most serious threat during the years 1990-1993. The unemployment rate peaked in the latter part of 1993, as state enterprises completed job shedding and job creation in the private sector began to pick up some of the slack in the labor market. Yet as jobs became more secure, as shown by rising pressure on real wages, the situation became much less secure for people on benefits. Eligibility requirements were tightened, and the duration of benefits shortened. While the situation has become more secure for workers, with higher wages in the state and private sectors, the prospects for the increasingly insecure unemployed will depend upon the extent to which they are absorbed back into the labor market.

4.3 POVERTY

Along with unemployment, the threat of impoverishment is one of the most serious manifestations of heightened economic uncertainty during transition. Public opinion data has shown that fear of poverty is very individualized and personal; it is something people will fear will happen to themselves rather than just being a social problem.

Poverty has increased during the transition, and there are three observable factors behind this trend. First, the growth in unemployment has pushed some households into poverty. Second, increased wage disparity, especially for unskilled labor, has led to the greater visibility of the working poor. Third, most surveys on Poland agree that there is a clear link between large families and poverty. On the positive side, the poverty rate of pensioners has fallen, by most measures. Overall, it appears that the poverty gap is not irreversibly deep; therefore social assistance programs can help to reduce poverty. Even moderate employment growth can reduce poverty further.

Like discussions of standards of living during transition, some commentators refer to the growing problem of poverty but do not specify which measures they are using. For instance, Kabaj and Kowalik (1995) take it almost on trust that there has been the “rapid enrichment of the few and impoverishment of many”, but cite no statistical data. Instead, these authors simply state that “a large part of the population is impoverished”. Their calculations that “millions” are impoverished are justified by unemployment rates of 16% at the time of the 1993 elections, 20% if including early retirement. However, as we saw in Chapter 3, retirement does not necessarily condemn people to poverty and the poverty rates of the unemployed, while significant, are lower than might be expected.

Technically, poverty primarily refers to having a low (per capita or household) income, which is insufficient for the expenditures needed to maintain a basic standard of living. In this review, important factors such as the quality of housing and environmental conditions will not be taken into direct consideration¹. Instead, the

¹ UNICEF (1994) has published a controversial review of social indicators in Central European transition economies.

focus remains on income and consumption data consistent with that presented in Chapter 3. Poverty can be calculated according to a quantitative basket of ownership, consumption of specific goods, a monetary measure of total income, or total expenditure. Whichever way it is calculated, the poverty line sets a monetary value on income or consumption needed to maintain a basic standard of living, but the choice of indicator can provide very different conclusions

4.3.1 Measuring the poverty line

A few terms common to the poverty debate should be defined. The most basic measure, the incidence of poverty (or “headcount”), is the number or proportion of people whose incomes fall below the designated poverty line. The **poverty gap** estimates how far below the given poverty line the average income of the poor falls. A higher poverty gap means poverty is deeper, and the incomes of the poor are that much less than the average income.

Each paper on poverty, and not only in transition economies, appears to use a different measuring stick². Before accepting the conclusions of each estimate, it is important to know how they are calculated. First, one has to decide whether to use data on household income or expenditure. The difficulty in accurately measuring total income, especially in the transition economy, suggests that expenditure measures are preferable. Deaton and Muellbauer (1988) persuasively argue that household expenditure levels tend to be more stable than income, and are thus a better indicator of long term welfare. Milanovic (1992) uses income-based estimates. Others, such as Szulc (1994) and Grootaert (1995) rely on measures of reported consumption expenditure which include not only the amounts spent in money on goods and services, but also the market value of self-produced consumption such as self-grown food or home repairs. Cornia (1995) analyses per capita income in relation to social minimum data based on 1989 average wages. It then has to be decided whether to use data for the aggregate household level, in per capita figures, or in equivalence units. Most analyses use equivalence units, but the format of data or the research project can also demand the use of per capita figures.

² See, for example, Sen (1976); Atkinson (1987); Ravallion (1992, 1996).

Specific poverty thresholds can be set and measured by either a subsistence minimum, a more socially-responsive “social minimum”, by consumption baskets (set in quantities rather than values), in relation to a given fraction of the average wage or pension, or via more subjective measures of deprivation.

Subsistence and social minima are calculated by comparing either total income or consumption expenditure with the current retail value of a basket of consumer goods, which can be weighted by equivalence units or per capita. As is implied, the subsistence minimum covers only the goods and services considered essential for physical survival. Ravallion (1992) argues that such stringent poverty lines should define absolute poverty lines which are transferable across time and countries. In contrast, the social minimum can include non-essentials considered important for a decent and modern living standard, such as televisions and washing machines.

Atkinson and Micklewright (1992) observe that the World Bank's *World Development Report 1990* suggests that a consumption-based poverty line be calculated in two parts: a minimum nutrition level and other basic necessities (non-food goods and services). Yet as noted in Chapter 3, the standards of what constitutes adequate food levels are far from universally agreed. While quantitative indices can be useful in comparing living standards, it is more difficult to define how little equals poverty. Finally, subjective measurements of the poverty line can define society's understanding of the minimum acceptable living standard, which is normally higher than the more objective measures.

The other method of estimating the incidence of poverty relies on relative measures. For instance, EUROSTAT measures expenditure levels against equivalent units of one-half the average salary. The World Bank (1995) uses both the minimum wage and the minimum pension, which is based on a percentage of the average wage. In cases where there are rapid changes in average pay, such as a fall in real wages during a stabilization, the poverty line may drop even though the costs of living may have remained the same or fallen. Poverty lines based on relations to average wages or incomes may be artificially raised during times of unsustainable pay increases, such

as Poland during 1988-89, and lowered when real wages fall. Relative poverty lines may therefore lead to an overestimation of incidence rates during transition.

Social minimum

While socialist regimes were reluctant to admit that poverty existed in their countries, there was much academic investigation into poverty lines³. As in the Soviet Union, Poland introduced a social minimum in 1956, but it was not made public. Interestingly, one of Solidarity's demands agreed to in the Gdansk Accords of 1980 was for the calculation and publication of a social minimum. The Institute of Labor and Social Affairs⁴ released their social minimum in 1981, but because of the imposition of martial law the next social minimum was not set until 1988⁵.

The social minimum serves as an unofficial poverty line, without any government obligation to ensure that households' incomes meet this level. It is based on the minimum expenditure approach, and is equal to the nominal, monetary value of a bundle of consumer goods and services deemed as necessary to meet minimum needs. As stated, the social minimum is higher than subsistence measures and estimates an ideal or goal for the society's living standards. In Poland, the basket of goods was fixed in 1983; shifting consumption patterns, particularly after the economic liberalization of 1989-1990, meant that consumption patterns had changed radically. The World Bank (1995) report on poverty in 1993 emphasizes that the socialist-era commodity basket had become outdated. As of 1993, the social minimum was indeed under revision. A similar point is made in Shapiro and Granville's (1995) criticism of consumer price indices: the shifting consumption patterns in a transition economy will make it difficult to fix a basket which reflects actual conditions.

According to the World Bank's (1995) historical application of the social minimum, 20% of the population was impoverished through the 1980s, peaking at 25% in 1982. Milanovic (1993) also applied the social minimum to household

³ See Chapter 7 of Atkinson and Micklewright (1992) for a review of the literature on poverty in socialist systems.

⁴ Part of the Ministry of Labor and Social Policy.

⁵ Atkinson and Micklewright (1992), p. 180.

income for the years 1989 and 1991⁶, but using a slightly different technique. The Polish social minimum provides different thresholds for one-person worker household and pensioners' households, and equivalent consumption units are also given. Milanovic (p.6) recalculates the official social minimum by income class and household size to create social minima specific to the Household Survey information on income distribution. For instance, for rural households the minimum is reduced by 20% to reflect the lower costs of living in the countryside. According to Milanovic's method, the poverty incidence (headcount index) increased from 17.3% in 1989 to 34.4% in 1991. The number of poor as measured by the adjusted social minimum increased by 6 million between 1989 and 1991, to include 13 million of Poland's 38 million population. Grootaert (1995), a World Bank economist, updates Milanovic's estimates to reach a 1993 poverty rate of 55%.

The headcount index based on the social minimum and household expenditures is also used in Szulc (1994, 1996). His estimates for the incidence of poverty are presented in Table 4.7. While the results from Szulc are in the same ballpark as in Milanovic (1993), they are slightly higher for 1991 and lower for 1993.

TABLE 4.7
INDICES OF POVERTY IN POLAND, 1990-1994

	1990	1991	1992	1993	1994
Social minimum	36.5%	35.7%	45.2%	51.2%	52.2%
50% average wage	13.9%	8.2%	9.2%	15.2%	17.1%

Note: All estimates for percentage of the population.

Source: Szulc (1996), p. 33.

The first point is that poverty existed in Poland during socialism, and did not suddenly appear on 1 January 1990. Yet by Milanovic's calculations, in the short term the transition was immensely costly and the poverty rate doubled in three years. With poverty this high, those who did not become poor themselves were likely to be close to people who had, increasing the perceived if not the actual threat or uncertainty of poverty.

⁶ Atkinson and Micklewright (1992) note that Milanovic's studies (1990, 1992) arose from the World Bank's *World Development Report* of 1990, which focused on poverty.

The Institute of Labor and Social Affairs published a review of its own estimates of poverty⁷. In 1992, expenditures of 34% of the population were estimated to be below the social minimum, and in 1994 this figure was 50%. While the Institute emphasized the growth in poverty, other indicators such as food consumption implied that people are eating better and healthier even if they were poorer. Again, we can see a contradiction between falling income figures and improvements on the qualitative side.

The proportion of population calculated to be under the social minimum is generally consistent across the three surveys using the social minimum. The percentage of the population living in households with average income or expenditures below the social minimum is estimated to have risen from just over one-third in 1990 to more than half in 1994. The claim that more than half of the population of Poland have living standards below the social minimum is clearly potent political ammunition. While it is true that the economic recovery did not begin to have a strong impact on wages until 1995, the figure of 50% plus seems excessive. Acceptance of these figures would require a closer examination of the components and prices in the basket of goods. Failure to adjust goods to reflect changing supply and prices would act as a Laspeyres index, with similar distortionary effects. The World Bank project on poverty in Poland (World Bank 1995) also takes a critical view of the reliability of the social minimum, primarily on the grounds that it overestimates the poverty rate. The World Bank report concludes that the social minimum, which averaged \$120 per person per month at June 1993 market rates, and \$10 per day at its highest level, was simply too high. Furthermore, as stated in the introduction to this section, it is debatable whether the social minimum measures actual poverty or an ideal for living standards.

Minimum wage

The minimum wage or minimum pension can also be used as a poverty line in transition economies. From 1991-1995, the statutory minimum wage has been calculated quarterly as the cost of a basket of basic goods and services consumed by the average-sized low income family, as defined by the GUS Household Surveys. It is

⁷ *Polityka*, 18 November 1995, p. 58.

further assumed that households have one wage-earner, whose pay will amount to half the household's total income. The minimum wage is exclusive of bonuses, overtime, and other allowances, and is calculated in reference to previous and expected changes in the consumer price index. So, the minimum wage appears to be calculated in the same way as the social minimum described above, and from 1991 we might expect to find similarities in the poverty rates calculated by these two methods. Hagemeyer (1995) estimates that the minimum wage has equaled between 65% and 75% of the social minimum since the start of transition.

Through 1995, the minimum pension was still calculated according to the *average* wage, and efforts to peg it to the consumer price index have faced strong political resistance. The minimum pension was set at 35% of the average wage until June 1993, when it was raised to 39%. The minimum pension is used to screen social assistant applicants in Poland, and the World Bank report (1995) adopted it as its poverty threshold. As the minimum pension was, at least in 1993, calculated as a percentage of the minimum wage, we can conclude that it provides a conservative estimate of the extent of poverty.

To give a representative sample of relative values, in June 1993 the "official" social minimum was 2,110,000 zł. per month. In comparison, the minimum wage was 1,500,000 zł., and the minimum pension 1,231,300 zł -- both substantially below the social minimum. The gross average monthly wage for the second quarter of 1993 was twice as high as the minimum wage at 3,137,400 zł. The average monthly retirement pay and pension was 2,032,300 zł.⁸, just below the social minimum. If average adult equivalent expenditure is compared to the minimum pension, in 1993 14.4% of the population, or 5.5 million people⁹ would have been under the poverty line. If consumption expenditure is compared to the minimum wage, 26.3% of Poles would have been poor. Moving from the minimum pension to the minimum wage increases the poverty headcount by 11.9% of the total Polish population. If the proportion of people defined as poor changes by so much between these indices, this indicates that a considerable number of the poor are tightly clustered near the poverty line, and that poverty is not very "deep".

⁸ *Biuletyn Statystyczny*, 1993, No. 9(455), p. 19-20.

⁹ "Raport o Biedzie", *Gazeta Wyborcza*, 29 June 1994, p. 4.

Estimates that between one in six and one in four are poor is, of course, still a matter for serious concern, but the poverty level by this calculation is only half of the level indicated by the social minimum (55% for 1993). Contrasting the minimum wage and pension thresholds with the social minimum illustrates how the choice of poverty line can greatly influence the message that is communicated to the public.

Composite measures

Cornia (1995) also calculates a "social minimum" for Poland, but it is based on the average wage in 1989, inflated by the consumer price index. It appears that this method attempts to use a relative measurement of poverty, but to make this an absolute level which can reflect the greater incidence of poverty during the early transition period. Cornia sets the poverty level at 45% of the average 1989 wage, and "ultra-poor" incomes below 34% of the indexed average wage. Income distribution data, rather than panel household data, is used to calculate the percentage of the poor via the cumulative density distribution.

By this method, Cornia derives poverty rates for 1989 of 10.3% for the poor and 7.8% of ultra-poor. These rose to 19.1% and 19.8% in 1990, 20.3% and 17.7% in 1991, and 20.4 and 19.8% in 1992. Cornia's approach is not unduplicated. The World Bank (1995, p. xiv) graphically presents a poverty headcount for the years 1978-1993 based on the 1993 minimum pension. In the 1980s, poverty by this measure fluctuated around 5-10%; in 1990 it rose to the 14-15% range, where it remained through to 1993. In comparison with the World Bank numbers, Cornia reached similar results for 1989 and higher figures for the transition years.

Despite this relative degree of consistency across methods, there are several problems with using the average 1989 wage as a base. Cornia points to the crudeness of the measure. The bias in using a CPI across transition is said to be "unknown, though not very large" (p. 298), there are recognized reliability problems with income data¹⁰, and the constant index fails to capture the welfare effects of ending shortages.

¹⁰ Grootaert (1995, p. 7) found that household expenditure per equivalent adult exceeded equivalent household income on average. For employee households in 1993, expenditure was equal to income, while for self-employed households reported equivalent per capita income was only one-quarter of expenditure (777,700 PZL (77.77 PZN) versus 3,057,600 PZL (305.76 PZN)), most of which was the result of underreporting.

While this method allows Cornia to achieve consistency across Central and East European countries, the dynamics of crisis and reform created statistical problems. By 1989, the political crisis and enterprise reforms in Poland had pushed real wages up to artificially high and unsustainable levels. Even if consumer price indices from 1989 to 1992 were fairly accurate (and Chapter 3 argues they were not), using the 1989 average wage will inflate and exaggerate the incidence of impoverishment.

Suspecting that the 1989 average wage would provide a poverty line that was much too high in “real” terms, the 1989 average wage was inflated by the CPI to current prices for the years 1990-1995. Dividing the rescaled 1989 average by the nominal average wage, the 1989 real wage at current prices was found to be between 37% and 46% *higher* than the actual, nominal average wage. In part, it can be understood that Cornia intended to capture the impact of falling real wages on poverty. Yet even assuming a cumulative 30% fall in real income between 1989 and 1990, this still gives an overestimation of the “real” wage of between 8% and 16%.

Whichever baseline is used, the measurement of poverty is a complex and contentious issue. If the average wage is used under conditions of falling real wages, this creates uncertainties and may underestimate the incidence of poverty under a falling average wage. Likewise, under changing demand and supply conditions in consumer markets, attempts to use a social minimum based on a basket of goods at retail prices may result in an overstatement of falling living standards. Cornia has a point, in seeking a threshold which reflects the “true” extent of poverty during economic adjustment. However, the choice of 1989 as a base year is inappropriate and leaves the analysis open to upwards bias of the threshold and thus the headcount.

Subjective measures of poverty

It is interesting to compare the experts’ definitions of poverty with those expressed in public opinion polls. In a series of surveys, CBOS asked people to define below what income level people are poor. In this section, I will take three examples and compare them to various poverty lines, including Cornia’s estimates. There are three reasons for this choice: Cornia’s index is easily calculated, to test his

proposal, and also because Cornia's estimates appear to fall midway between the social minimum and minimum pension thresholds.

In November 1990, public opinion on estimates of the expenditure-based poverty line averaged to 700,000 PZL (70 PZN). In comparison, in 1990 the average wage was 1,029,637 PZL (102.9 PZN). The survey poverty line is close to Cornia's "poor" estimate based on one-half of the revalued 1989 average wage, which I calculate as 708,973 PZL (70.9 PZN). It is about 40% higher than Cornia's "ultra-poor" index of 35% of the average wage (496,281 PZL or 49.6 PZN). Interestingly, Szulc (1996) cites the social minimum for 1990 as the same amount: 496,000 PZL, and the "relative poverty line" (half the average 1990 wage) as 344,000 PZL. Making aggregate estimates for 1990 is a difficult if not meaningless task, given the high rate of inflation. Yet it is interesting that Cornia's estimate comes much closer to the public perception than do the other studies.

The same survey showed that in July 1991, the average monthly income thought necessary to maintain the basic needs of a household was 1,390,000 PZL (139 PZN)¹¹. The average wage for 1991 as a whole was 1,756,300 PZL (175.6 PZN), which I think reveals much about how low average wages were perceived to be during the worst year of the transformational recession. Again, Cornia's poverty line performs well; for 1991 it is 1,207,381 PZL (120.7 PZN), which is about 15% lower than the survey average. For 1991, Szulc (1991) places the social minimum at 913,000 PZL (91.3 PZN) and the relative poverty line at 625,000 (62.5 PZN). The social minimum is again closer to the public understanding of impoverishment than the relative measure.

In 1993, the question was phrased with a slight difference in emphasis, asking under what income level counts as poor. The majority (55%) of respondents responded between 500,000 and 1,000,000 PZL (50 to 100 PZN)¹². This is too wide a gap to calculate any precise conclusions. However, even the higher end of this scale is far below Cornia's higher poverty line (which I estimate at 2,336,029 PZL or 233.6 PZN). The minimum pension ranged from 108.2 PZN in January to 140 PZN in December 1993¹³, at all points being greater than the survey figures. The social

¹¹ CBOS, 1991, "Za ile można żyć dostatnio, a za ile biednie?", Report No. 778/91, July.

¹² CBOS, 1993, "Społeczna definicja biedy w Polsce", Report No. 997/93, April.

¹³ World Bank (1995), p. 169.

minimum was 2,068,000 PZL (206.8 PZN) for 1993, and the relative poverty line was 1,259,00 PZL (125.9 PZN) (Szulc 1996, p. 29). The discrepancies may reflect the wording of the survey question, as the range selected in the opinion poll is below even the minimum pension and relative poverty lines.

From the pre-1993 data, we can conclude that the public's view of poverty lines are closest to Cornia's estimates. Figures from the opinion data were more moderate than those based on the official social minimum, but higher than estimates based on the minimum pension. Extrapolating from the social perception of poverty lines, the incidence of poverty in Poland rose from just over 10% in 1989 to more than 20% in 1993. While this is not as apocalyptic as the social minimum estimate of half of Poland being impoverished in 1993, it is still high in relation to historical experience. Indeed, the number of the poor in Poland is high by any standard, numbering in the millions.

The most distressing problem with the studies of poverty in Poland is that there are few consistent figures provided across time. The one exception is the work of Szulc (1994, 1996), which compares different methods of calculation for households and individuals over time. Despite the differences and difficulties in estimating the scale of poverty, some clear patterns emerge regarding the sources and primary factors behind it. As with the labor market data, these findings are not unusual or surprising, except in regards to how quickly the poverty profile has come to resemble that in advanced market economies.

4.3.2 Poverty and socioeconomic groups

In addition to asking respondents to quantify the poverty line, CBOS also conducted a survey in 1993 asking which social groups made up the majority of the poor¹⁴. In other words, which groups were most vulnerable to impoverishment. Nearly half (49%) responded that workers made up the majority of the poor, followed by the unemployed (34%), pensioners (32%), farmers (22%), and budget sector workers (10%). People tended to see their own group as poorer than other groups; 43% of farmers thought the greatest number of poor were amongst their cohorts (and

¹⁴ CBOS, 1993, "Społeczna definicja biedy w Polsce", Report No. 997/93.

they were right), while fewer than one in four workers, unemployed, housewives, private entrepreneurs and only 22% of pensioners expressed concern for farmers. 60% of skilled workers and 51% of unskilled workers thought that workers accounted for the majority of the poor. Interestingly, half of unemployed people thought *workers* were poorest, followed by the jobless (40%). Even well-educated people exhibited this trend: 30% of those with tertiary education and 30% of white collar employees thought the greatest number of poor were amongst budget sector workers. Pensioners' views on their poverty rates coincided with the overall average, but as we shall see, by 1993 the poverty rate amongst retirees had fallen -- a complex issue which is discussed below.

Using the categories of the Household Surveys, we can examine the incidence of poverty across socioeconomic groups. While the level of poverty differs across indicators, we can observe that amongst the economically active, farmers and worker-farmers have the highest poverty rates. The higher rates of poverty in rural economies is important because about one-fourth of households are supported by agriculture, and worker-farmers account for another one-fifth. The poverty rate of workers has risen, while the high poverty rate of pensioners under socialism has since fallen slightly. More recent data show that the two socioeconomic groups which emerged in numbers under transition -- the unemployed and the self-employed -- are the most and least likely to become poor.

TABLE 4.8
POVERTY INCIDENCE BY SOCIOECONOMIC GROUP, 1993

	<i>Below minimum pension</i>		<i>Below minimum wage</i>	
	<i>Incidence</i>	<i>Poverty gap</i>	<i>Incidence</i>	<i>Poverty gap</i>
Employee	11.0%	11.8%	21.6%	14.3%
Worker-farmer	19.0%	10.0%	38.2%	13.4%
Farmer	23.3%	13.7%	38.6%	16.8%
Pensioner	10.9%	13.8%	21.2%	16.0%
Self-employed	9.0%	11.1%	18.4%	13.5%
Social benefits	55.9%	17.9%	71.3%	23.0%
Total	14.4%	13.2%	26.3%	15.6%

Note: Measures percentage of people in each socioeconomic group who fall below the poverty line.
Source: Grootaert (1995).

Of the various surveys of unemployment in Poland, two which provide detailed information on poverty rates across socioeconomic groups are Milanovic (1993) and World Bank (1995). While both were conducted under World Bank auspices, Milanovic's paper uses the social minimum, while the World Bank report opts for the minimum pension threshold. Szukielojc-Bienkunska (1996) also provides figures for 1993 and 1994 based on the EUROSTAT method (equivalent units of one-half the average wage). These analyses cover different years, and the social minimum gives consistently higher estimates than the minimum pension estimates. However, it will be useful to look for trends in poverty across households primarily sustained by agriculture, paid employment, or social benefits. Disaggregation of poverty headcounts across social groups can reveal a great deal about its causes. In addition to defining the percentage of the specified group with incomes or expenditures below the specified poverty line, and we can also consider how heavily each group weighs in the total number of the poor.

Workers

Starting with Milanovic (1993), in relation to the social minimum, it was estimated the poverty affected 15.8% of workers' households in 1989, and 38.1% in 1991. Relatively speaking, workers had a below average poverty rate in 1989, and had a higher relative incidence of poverty in 1992. Panek (1997), when applying the social minimum to income levels, reaches much higher figures, concluding that the proportion of worker *households* (not individuals) under the poverty line was 59.4% in May 1995 and 52.8% in May 1996. The individual headcount is bound to be higher, given the propensity of larger families to be poor.

In contrast, the World Bank (1995) survey concluded that by minimum pension standards, in 1993 poverty affected only one in ten people in worker (state sector) households. When the poverty line is the minimum wage, one in five fall under the threshold. Again, the doubling of the poverty headcount when the poverty threshold is moved from minimum pensions to the higher level of wages indicates that the poor are largely clustered around the line. Similar estimates are reached by Szukielojc-Bienkunska (1996), whereby the relative poverty line, in 1993 10% of workers were poor, rising to 11.4% in 1994.

These estimates are closer to the World Bank estimates. The social minimum, pension-based, and relative wage figures are not perfectly comparable in terms of methodology or time, and so it is difficult to conclude to what extent the different data sources are responsible for the difference between the 1991 and 1993 rates, rather than some overriding reduction in poverty amongst employees.

One important difference which has attained political resonance in Poland has been the low level of wages in the public sector, and particularly for employees in the "budget sector": education, health, state administration, etc. Budget sector workers, many of whom are educated and in clerical or white collar jobs, are more prone to poverty than white collar workers in the private sector. World Bank estimates based on the minimum pension for 1993 show that 4.8% of state sector white collar workers were poor, versus 2.8% in the private sector. For blue collar workers, there was little difference in poverty rates in the public (15.7%) and private (15.3%) sectors (World Bank 1995, p. 16).

Although I have not found a time series of consistent calculations of poverty rates by socioeconomic group, the general message from the various surveys is that there has been relatively less poverty in this group. From 1993, we have seen that the situation in workers' households is better than all than self-employed households. It also appears that poverty in this group peaked in 1993-94 and is now declining. This would be commensurate with information on real wages and employment.

Of course, employees in different sectors of the economy have fared differently. In section 4.2 of this chapter, it was shown that employment in the budget sector has remained much more stable and has not experienced job shedding the way that state-run farms and enterprises have. Because of the need to reduce government spending, preservation of jobs required state sector wages to rise more slowly than in other sectors, thus failing to keep pace with average salaries.

The increasing disparity of wages for blue and white collar workers has received much attention in the media, and it has been blamed for the emergence of the working poor. In the socialist system, the differential between wages in blue and white collar jobs was low, as the result of an official and intentional policy of evening wage gaps in favor of blue collar workers. One way of measuring this gap is through the returns to education. In 1987, the ratio of wage disparity between university and

primary education was 1.34. In other words, people with a third-level education earned about one-third more than manual workers. In 1992, the ratio was 1.56. In 1993, the returns of university to primary education was 1.66 in the state sector and 2.13 in the private sector (World Bank 1995). Other studies (e.g. Kudrycka 1993) confirm that education is the most important factor in explaining wage inequality among employees.

Referring back to the Gini coefficients presented in Chapter 3, income inequality amongst worker households increased during the first two years of transition. From a Gini coefficient of 23.7 in 1989, this rose 1.3 points to 25.0 in 1990 and 1991, although state sector wages remained more equitable, rising from 19.7 in 1989 to 23.6 in 1990 and 22.8 in 1991 (Milanovic 1992, p. 15). The question remains whether the increase in poverty resulted from increased inequality or from the decline in real incomes in 1990. Milanovic concludes that the change in income distribution was moderate, and overall income distribution appears even more consistent when compared to levels in 1986-87. Therefore, most of the increase in poverty resulted from lower incomes.

Worker-farmers

The dominance of the impact of declining incomes over distribution can be illustrated by change in agricultural households, and notably amongst worker-farmers. Between 1989 and 1993, income inequality amongst worker-farmers decreased. However, this was in the context of greatly reduced per capita incomes and expenditures (see Chapter 2). From having the lowest incidence of poverty, 7.9% in 1989, worker-farmers had the highest poverty rate in 1991, with 21.1% under the social minimum (Milanovic 1993). Calculations of the percentage of households in poverty, comparing household income to the social minimum, provide very high poverty rates of 70.6% of worker-farmer households in May 1995 and 66.7% in May 1996 (Panek 1997).

Using the relative thresholds, we can compare estimates for 1993. The World Bank (1995, p. 14) concluded that the minimum pension line gave a poverty incidence of 19%, and the minimum wage provides an estimate of 38.2%; this is for percentage of people below the poverty line. Szukielojc-Bienkunska (1996) reached a poverty

headcount for worker-farmers of 14.6% in 1993 and 14.8% in 1994 via the EUROSTAT method of equivalent units of one-half the average wage.

Worker-farmers have been in an especially difficult position during the transition. Under socialism, they profited from both the emphasis of regional industrialization and the high level of demand for produce in farmers' markets. The parity policy which sought to level rural and urban incomes worked in favor of rural welfare. During transition, they have been affected both by the adverse impact on agriculture from shifting terms of trade, reduced domestic demand, and import competition, and by the shift in the industrial labor market which has led to higher unemployment in rural areas. Additionally, worker-farmers in households with more than two hectares are ineligible to receive unemployment benefits.

The relative stabilization of the economy in 1990-1991 did not signal the end of growing hardships for worker-farmers. From the data, we can sense a greater increase in poverty after 1991, which seems to be tapering off. However, worker-farmers appear to have sustained substantial increases in poverty through 1993. Szulc (1996, p. 35) finds that whereas pensioners and farmers were the socioeconomic groups with the highest poverty rates in 1990 and 1991 (by either absolute or relative measures), in 1992 and 1993 the table was headed by worker-farmers. At present, worker-farmers' poverty levels are slightly lower than farmers, considerably lower than non-wage benefit recipients, but worse than farmers and workers. The traditional reliance on the primary and secondary economy has hardly softened the burden of reform for this group, who have been amongst the strongest opponents of reform. This group tends to be located in smaller towns and villages. While workers in urban centers are profiting from current growth, it will take longer for a smaller share of this growth to make a positive impact in the regions.

Farmers

The headcount index based on equivalent units of the social minimum provides poverty rates of 39.4% in 1991, up from 17.2% in 1989 (Milanovic 1993, p. 7). While this was half the rate of poverty for pensioners in 1989, by the second year of transition farmers faced the highest poverty rates of the four traditional socioeconomic groups. By a similar measure based on the social minimum, Szulc

(1996, p. 35) also found evidence that poverty deepened for farmers, at 39.2% in 1991 and a surprisingly high 58.3% in 1994. Meanwhile, Panek's estimates for the percentage of farmer households under the social minimum in terms of income levels was 65.1% in May 1995 and 69.4% in May 1996.

Referring to World Bank research, in 1993 farmers had a poverty rate of 23.3% in relation to the minimum pension, and 38.6% relative to the minimum wage. By the EUROSTAT method, 14.9% of people in farmers' households were poor in 1993, rising to 18.6% in 1994 (Szukielojc-Bienkunska 1996). As with worker-farmers, the difference between Szukielojc-Bienkunska's and the World Bank's estimates is about 5%.

As very different as these measures are, the message is that poverty levels are not improving for farmers, and they may well be continuing to deteriorate. Polish agriculture is in a very difficult situation. Many private farms, especially in the south and east, are very small holdings. Even the larger private and state farms in the west have failed to restructure. The real interest rate rise in the 1990-1991 increased the debt burden on farmers; one of their key demands continues to focus on the need for low interest rate loans. In the macroeconomy, the poor financial situation in the agricultural sector can also be attributed to the effects of the terms of trade collapse, a fall in domestic demand for food especially in relation to pre-liberalization, increased input prices, and greater competition from imported produce. Farmers demonstrate the highest poverty rate for households with a livelihood. Poverty among farmers is even worse than for pensioners. Even taking into consideration unreported incomes and self-produced consumption, the lack of money in this sector provides an obvious focus for discontent.

Pensioners

By Milanovic's estimates, the only of the four socioeconomic groups which experienced a decline in the poverty rate during transition was pensioners, who historically had the highest poverty rates. While 36.2% of pensioners were poor in 1989, this rate had actually fallen slightly to 33% in 1991 (Milanovic 1993, p. 7). Szulc's absolute poverty estimate for 1990 is 41%, and Panek's household poverty incidence estimate is 36.4% for May 1995 and 34.3% in May 1996.

The relative poverty line for pensioners was 13.1% in 1990 (Szulc 1996, p. 36), the highest for the four socioeconomic groups that year. Via the minimum pension, only 10% of pensioners were poor in 1993, but poor pensioners accounted for 17% of the total poverty headcount (1995, p. xvi). By minimum wage standards, 21.2% of pensioners were poor in 1993. We can compare these figures once again to Szukielojc-Bienkunska (1996), who by EUROSTAT techniques reaches a figure of 11.1% for 1993 and 12.1% for 1994.

Pensioners are the one group for which we can observe a consistent improvement in material terms in relation to the pre-transition period. Prior to 1990, pensioners and retirees received benefits which were low in real and relative terms, and they were the most vulnerable to poverty of the panel groups. After 1991, pensioners have improved their relative position, to now where it is considerably higher than the agricultural sector and substantially better than households reliant upon non-pension social benefits.

While the level of benefits was increased over the first two years of transition, the explanation of the lower poverty rates amongst pensioners is more complicated than that. The first point is that there was an intentional growth in the number of early retirements in 1990-1992, in an attempt to ease the pains of labor market adjustment. This resulted in a massive increase in the number of pensioners (by about 20%), and a greater number of younger pensioners who are able to take on part-time work. Statutory indexation regulations were also passed, which kept benefits in line with wage increases. In Chapter 3, we saw that the ratio of pensions to wages has increased 46.2% in 1989 to 72.8% in 1995, and that most of this rise is due to higher pension levels rather than lower average wages. The pension system has become the "third rail" of Polish politics. Reform of the pension system has been repeatedly delayed. The decision by the government to revalue pensions twice a year rather than quarterly was actually overturned by the Constitutional Tribunal. While fewer pensioners are living in poverty, this policy has been extremely costly for the state budget. The total cost of pension benefits increased from 8% of GDP in 1989 and 1990 to 15.8% in 1994 (Golinowska 1996, p. 20).

Self-employed

Because the Household Budget Survey did not incorporate self-employed and social benefit-dependent households, data for these groups are only available from 1993. Yet even with these few figures, a clear image emerges from which we can confidently conclude that these two groups embody the true winners and losers of economic reform. Szulc (1996, p. 38) compiled estimates of the poverty headcount by absolute and relative levels for these two groups for 1993-1994.

The first observation on poverty and the self-employed is the greater incidence of poor people in this sector between 1993 and 1994. Szulc's social minimum estimate for the poverty rate of self-employed households, 32.7% in 1993 and 33.9% in 1994. In comparison, Panek reaches social minimum / household income estimates of 45.9% in May 1995 and 43.3% in May 1996.

By the relative poverty indices, Szulc obtains poverty rates of 5.9% in 1993 and 7.6% in 1994. Again, these are the lowest rates in the six socioeconomic groups, but there is a slight increase in 1994. Szukielojc-Bienkunska (1996) reaches an incidence rate of 4.5% in 1993 and 4.8% in 1994, an increase of only half a percentage point. The World Bank (1995, p. 14) report also finds that the self-employed have the lowest poverty rates, at 9% by the minimum pension and 18.4% for the minimum wage for 1993.

TABLE 4.9

POVERTY RATES BY SOCIOECONOMIC GROUP: SELF-EMPLOYED AND UNEMPLOYED

	1993	1994
Self-employed		
Social minimum/eq. units	32.7%	33.9%
1/2 average wage	5.9%	7.6%
Unemployed		
Social minimum/eq. units	84.4%	82.0%
1/2 average wage/eq. unit	52.5%	49.9%

Source: Szulc (1996), p. 38.

These findings are in line with the income and consumption data presented in Chapter 3. While at least a share of households primarily maintained by a small business are under the poverty line, the bulk of this group are the most prosperous households in Poland. As in developed market economies, the most dynamic sector for job creation and income growth is in the small private sector. The very positive

situation in the entrepreneurial sector contrasts sharply with the situation in households maintained by unemployment and income support benefits and other unearned income sources.

Benefit-dependent households

Households maintained by social benefits are more likely to be poor than not, regardless of the yardstick used. While they make up a minority of the total number of the poor, the majority of people sustained by non-wage incomes and social benefits had income and expenditure levels below poverty levels, however measured. In Chapter 3, household maintained by social benefits -- the majority of which can be considered to be unemployed -- demonstrate much lower levels of income and material consumption than the other socioeconomic groups. Therefore, the poverty shown in official figures is not simply an artifact from the failure of unemployed households to report incomes earned in the black labor market. The rise and persistence of poverty is having real effects on the material standard of living.

TABLE 4.10
POVERTY RATES BY SOCIOECONOMIC GROUP, 1993

	<i>Below minimum pension</i>	<i>Below minimum wage</i>	<i>Share of group in total population</i>
Employee	37.9%	40.7%	49.4%
Worker-Farmer	11.5%	12.7%	8.7%
Farmer	17.1%	15.6%	10.6%
Pensioner	16.9%	18.1%	22.4%
Self-unemployed	3.5%	3.9%	5.6%
Social income	13.0%	9.1%	3.3%
Total	100%	100%	100%

Note: Percentages vertically totaled, showing distribution of the total number of the poor by socioeconomic group. Measured by equivalent expenditure / minimum pension and wage.

Source: Grootaert (1995).

As in Table 4.11, Szulc finds the poverty level of people in households maintained by non-wage incomes to be higher than 80% relative to the social minimum, and close to 50% by the relative poverty line. Szukielojc-Bienkunska (1996) estimates that 42.7% of people in this group were poor in 1993 as were

46.1% in 1994, according to the EUROSTAT method. Panek (1997) uses the household income / social minimum technique to conclude that 85.4% of households were below the poverty line in mid-1995, and 87.5% in May 1996. Even the conservative World Bank estimates places the poverty rate in this group in 1993 to be 55.9% by the minimum pension and 71.3% by the minimum wage threshold.

The unemployed are particularly vulnerable in that benefits are only of limited duration, although these eligibility periods have been extended in areas of high unemployment. The drain on resources from the rising pension bill lowers the amount available for other social programs. Once again, the unemployed emerge as the losers of transition, the ones upon whom the burden of economic change has fallen the heaviest.

Once again we find that the costs of transition, this time measured via the rise in poverty, have not been equally distributed across socioeconomic groups. Of the groups dependent upon earned incomes, the farming sectors have been particularly hard hit. The clearest losers, once again, are households without employment dependent upon social benefits and other non-wage incomes. This finding indicates that the threat of unemployment brings very real risks and costs. If the primary wage-earner becomes unemployed, then the cumulative effects of moving from the worker group to the benefit-dependent group have very serious implications for income, food consumption, living standards, and the likelihood of poverty.

In contrast, the self-employed and people in employment have done fairly well during transition. People who were able to remain in employment, and this is the majority of workers, have good prospects for higher wages, lower poverty rates, and greater consumption levels. Fewer pensioners are poor, also, but this social improvement threatens to be unsustainable. Real pensions may have to be decreased, and pensioners' poverty levels may start to creep up again. However, the political clout of pensioners will continue to mount strong opposition to any erosion of benefit levels.

4.3.3 *Poverty and unemployment*

Poverty rates in households where at least one person is unemployed were 27.8% in 1993, or twice the Polish average. Conversely, one-third of the poor are in households affected by unemployment (Grootaert 1995). Furthermore, the length of unemployment is related to the likelihood of becoming poor. According to the 1993 data, households affected by long-term unemployment run a 38.8% probability of poverty. Those with two people unemployed have a 45% probability of being unemployed. If the head of the household is jobless, the family has a 57% chance of being poor (World Bank 1995).

If the World Bank estimates are close to the real situation, two-thirds of the poor are not unemployed¹⁵. From this, we have to conclude that unemployment affects not just the unemployed and benefit-maintained families, but that there is also a percentage of the working poor.

The profile of the poor resembles that of the unemployed in the prevalence of low education levels. In 1993, 84% of the heads of poor households and 75% of the long-term unemployed had a basic, vocational education or less. To compound the picture, the long-term unemployed amounted to 13% of the total poor (World Bank 1995). Long-term unemployment is linked to job-finding abilities, and demand for low-skill labor has not rebounded so far in the post-recession recovery. As shown in the preceding section, the demand and remuneration for skilled and educated workers are much higher than for unskilled workers. It is possible that continued economic expansion in Poland may increase the demand for unskilled labor, especially in the services sector. However, the rise in private sector investment during the past few years suggests a shift towards more labor-intensive jobs. If business does not commit itself to training staff, the danger is that a pool of long-term, low-skill unemployed will develop into an underclass of poverty and joblessness.

¹⁵ "Raport o Biedzie", *Gazeta Wyborcza*, 29 June 1994, p. 4.

4.3.4 *Conclusions on poverty*

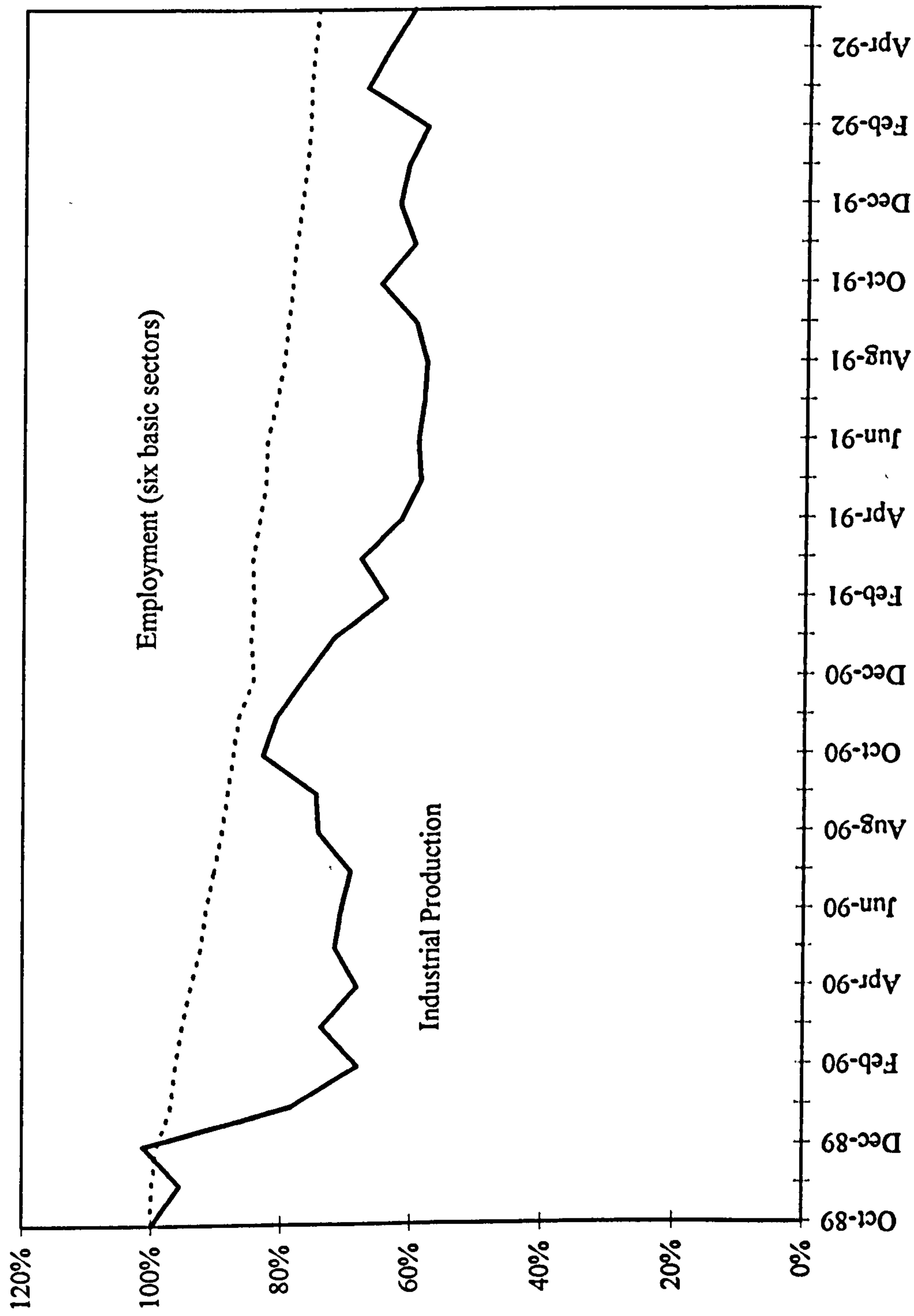
The general consensus of observers of the Polish economy is that poverty has increased over the course of the first years of the post-communist economy. The number of the poor in Poland reach into the millions. Poverty especially affects children, and families in low growth, rural areas. There are educational barriers to getting out of poverty; Poles with primary or vocational education have a much harder time finding employment and raising themselves out of poverty.

However, the assertion of the widespread “pauperization” of Poland (e.g. Kabaj and Kowalik 1995) hides a more complicated reality. First of all, **poverty existed in Poland before 1990**. Second, the surveys agree that **the poverty gap is shallow**; poor households are clustered near the poverty line and can be brought above it by relatively modest increases in income. Third, the poor have not yet developed into an underclass, distinguishable through demographic characteristics. **A continuing rise in employment may help to pull more households back above the poverty line**. Fourth, the shallowness of the poverty gap, as well as the absence of considerable variation in regional levels of poverty and the improvement in pensioners’ poverty levels, strongly indicates that **social safety net programs have been largely effective**. This is even allowing for rather large leakages into non-needy families.

The World Bank (1995) report concludes that low working income was the main cause of poverty for 60% of the poor, for 35% unemployment was the most important factor, and age (over 65 years) was the dominant factor for only 5% of the population. These findings introduce two further conclusions. First, **a majority of the poor are economically active**, in both paid employment and private agriculture. Conversely, while the increase in unemployment between 1990-94 did prompt an increase in poverty, **two-thirds of the unemployed are not considered to be impoverished**. Second, indications are that **few pensioners have become poor**. However, it does appear that the poorer pensioners are older, having retired before 1990.

Higher education and white collar skills greatly reduced the probability of becoming unemployed. The losers in the poverty gamble have been the unemployed, those without earned income, rural and village residents, and those with low skills and educational attainments. The sharp increase in poverty amongst rural households may have helped to further concentrate antagonism to the costliness of reform.

FIGURE 4.1
EMPLOYMENT AND PRODUCTION DURING THE “TRANSFORMATIONAL RECESSION”¹⁶



¹⁶ Source: Bell and Mickiewicz (1997)

FIGURE 4.2
EMPLOYMENT, REAL WAGES, AND GDP IN POLAND 1989-1995 (PREVIOUS YEAR = 100)

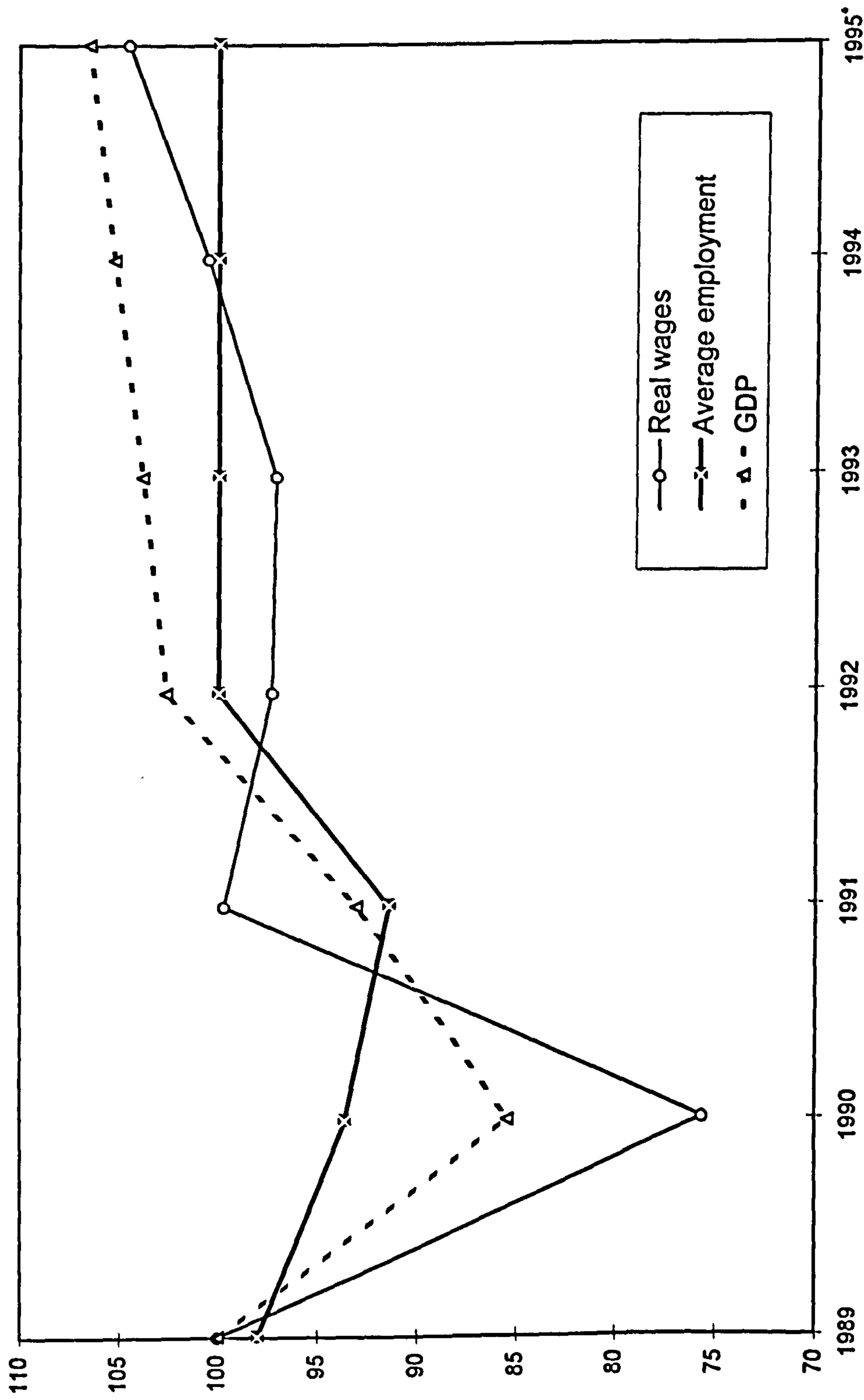


FIGURE 4.3A
NUMBERS OF REGISTERED UNEMPLOYMENT AND UNEMPLOYED THROUGH DISMISSALS

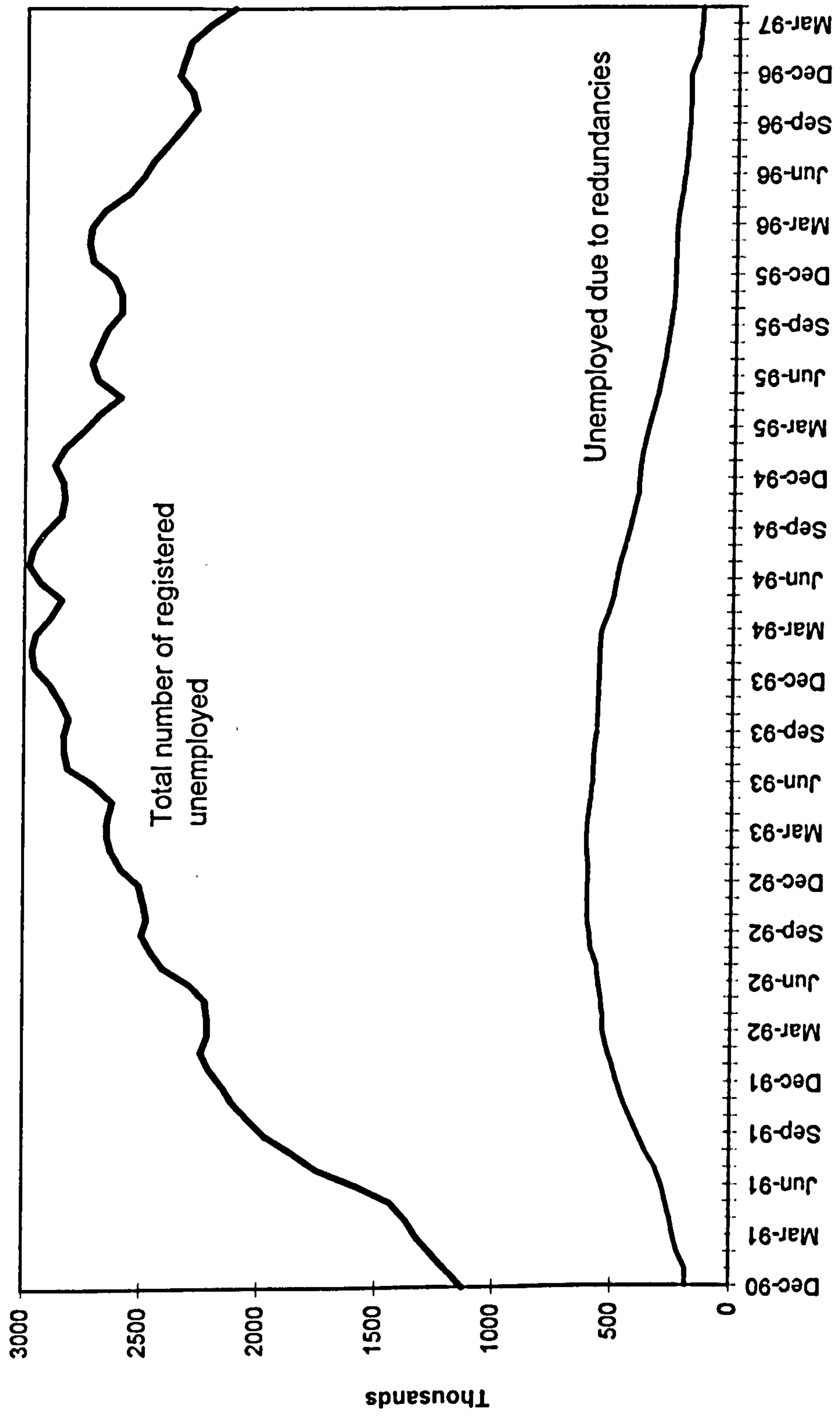


FIGURE 4.3B
DISMISSALS AS % TOTAL UNEMPLOYMENT AND
REGISTERED UNEMPLOYMENT AS % OF TOTAL ACTIVE WORKFORCE

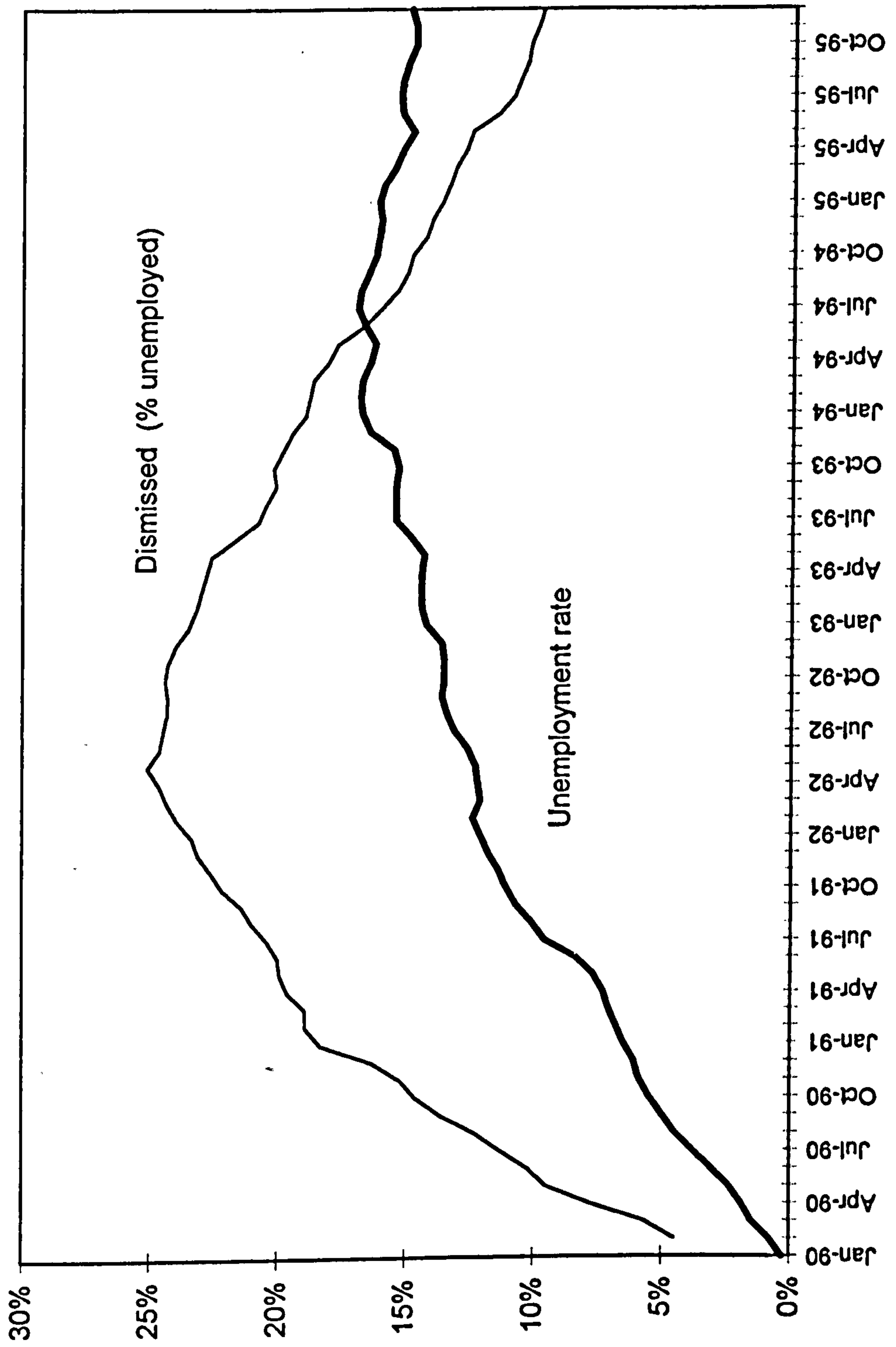


FIGURE 4.4
STATE SECTOR EMPLOYMENT (QUARTERLY AVERAGES, 1Q1990 = 100)

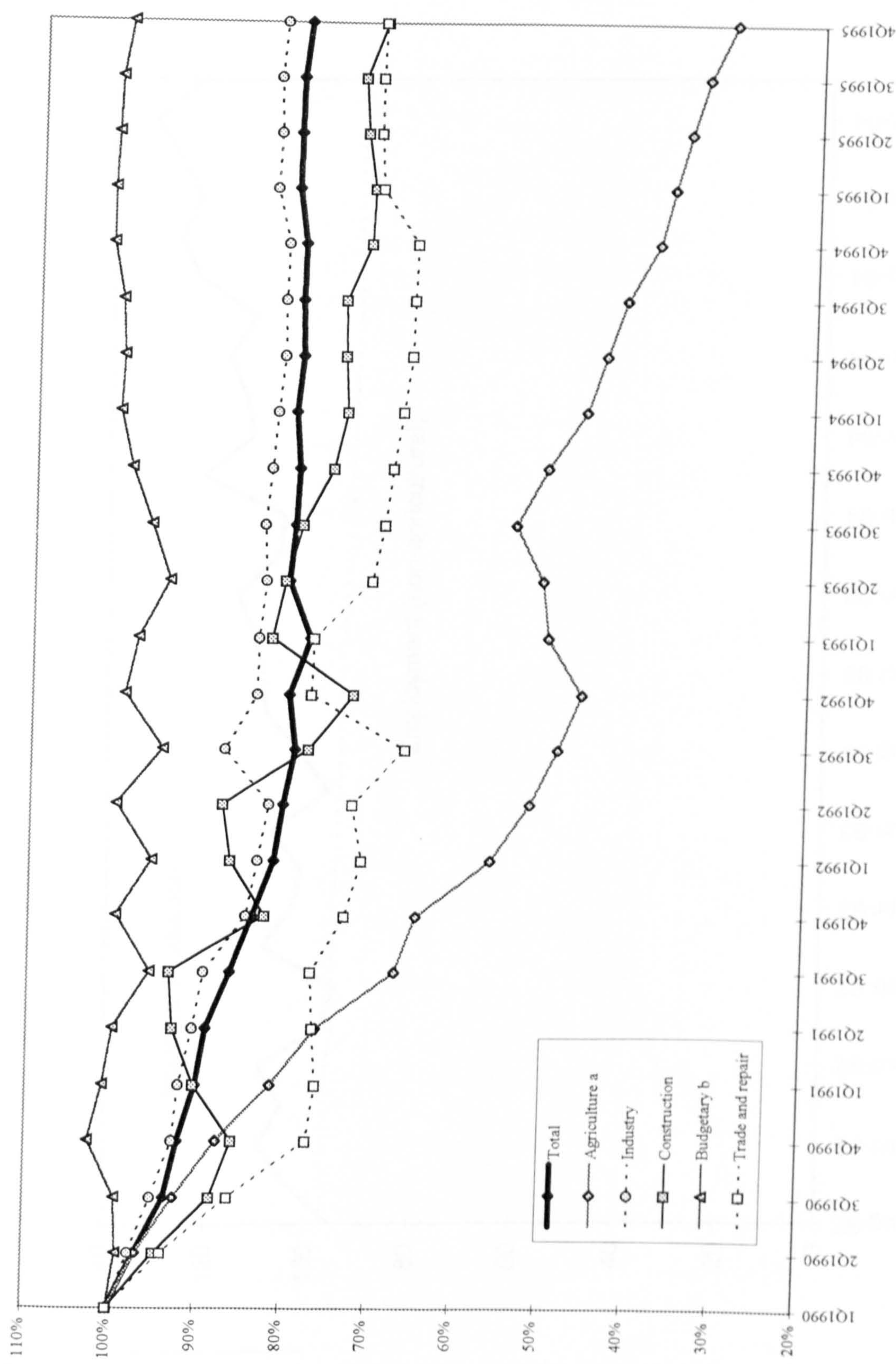


FIGURE 4.5

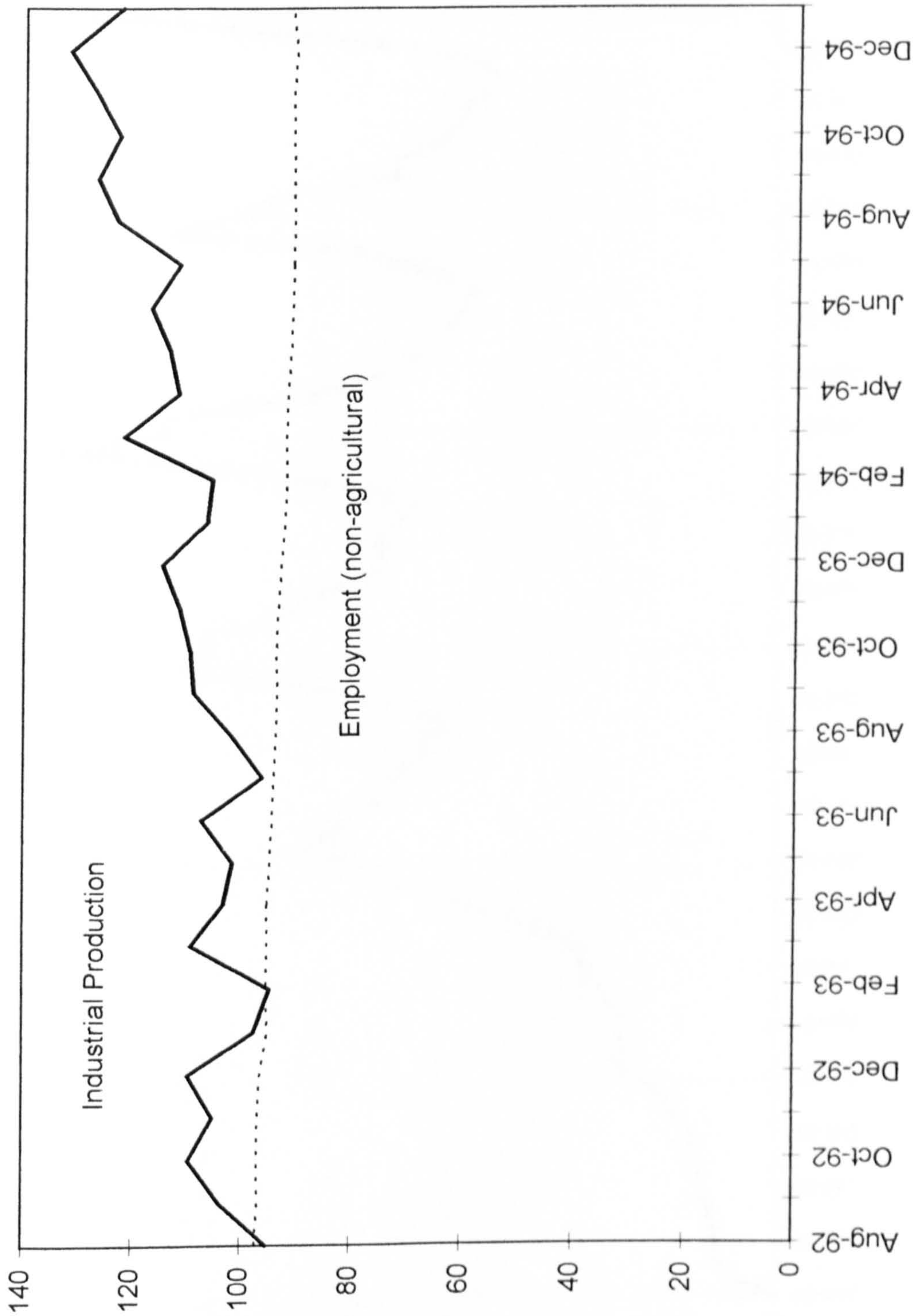
EMPLOYMENT AND PRODUCTION AFTER THE "TRANSFORMATIONAL RECESSION"¹⁷¹⁷ Source: Bell and Mickiewicz (1997)

FIGURE 4.6
NUMBER OF UNEMPLOYED PER REGISTERED VACANCY

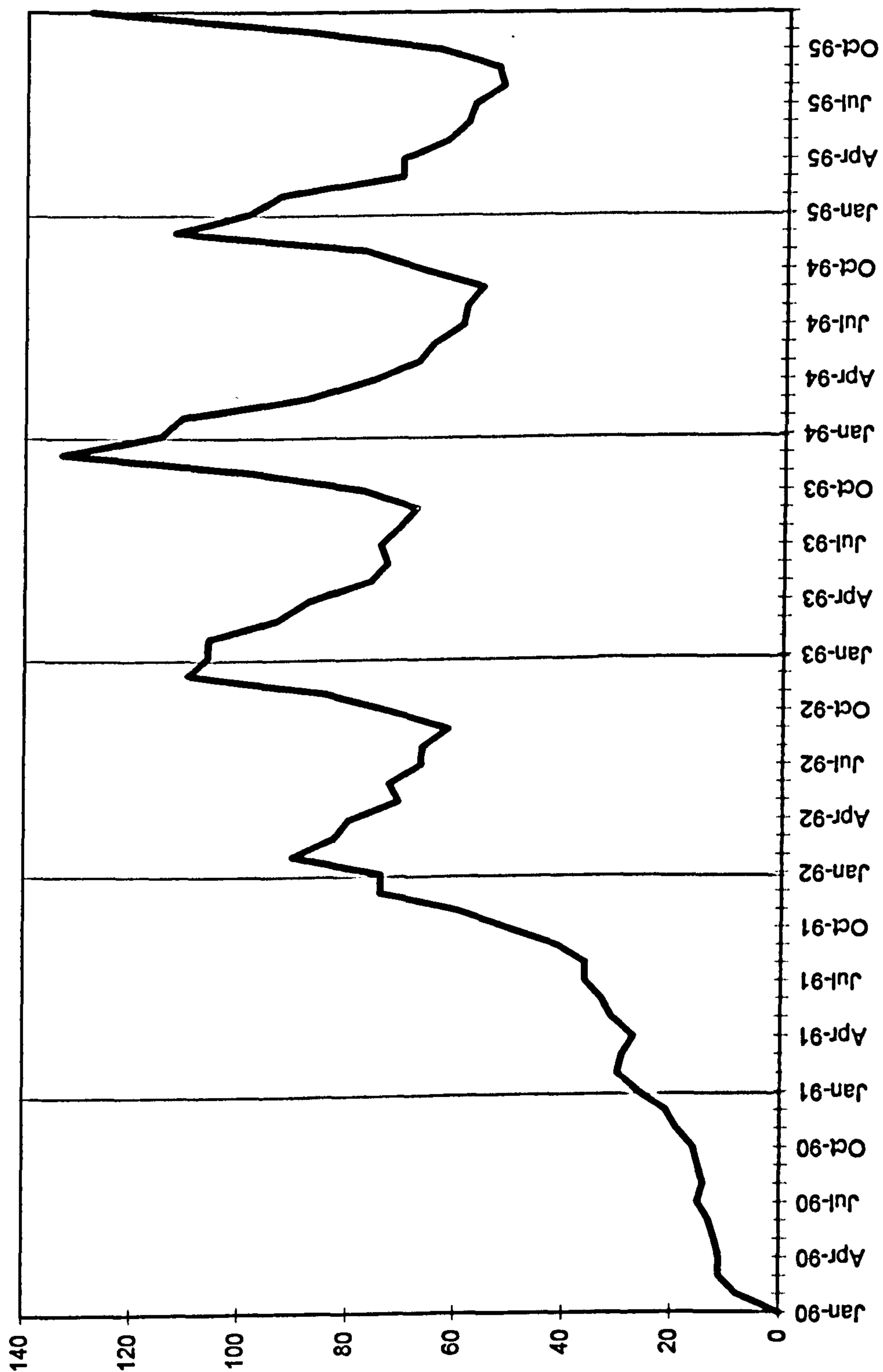
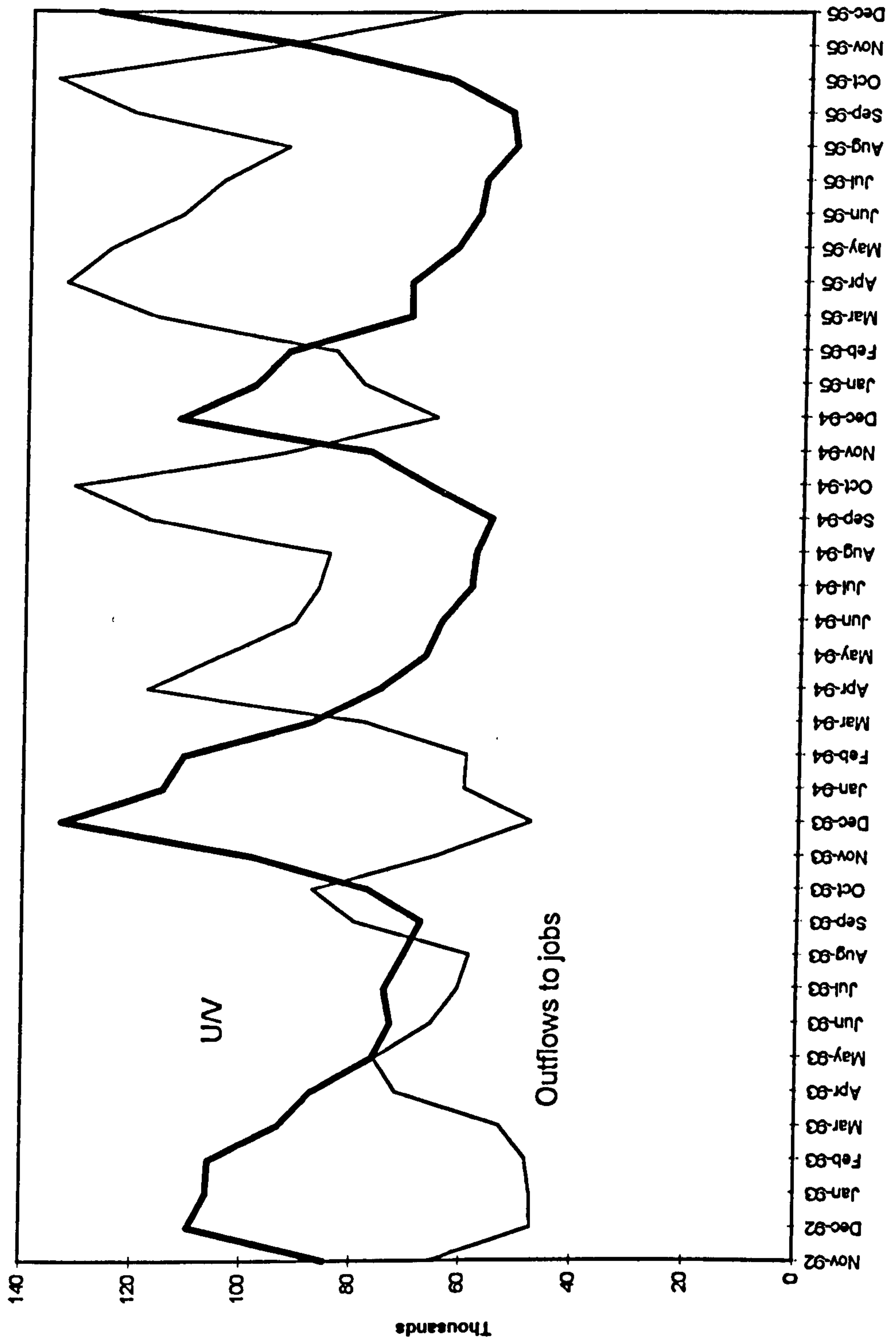


FIGURE 4.7

UNEMPLOYMENT/VACANCY RATIO AND OUTFLOWS FROM UNEMPLOYMENT TO JOBS



Appendix 4.1: Sources of information on unemployment

Coricelli, Hagemejer, and Rybinski (1995, p. 60) present a summary of the two main sources of information on unemployment in Poland. Until 1992, only GUS data on the registered unemployed was available. In 1992, the data gathering procedures on registered unemployment were improved and extended to cover a greater proportion of the population. This remains the only source for *województwo* unemployment levels. In May 1992, GUS began a quarterly Labor Force Survey (LFS), compiled according to ILO guidelines. The definition of unemployment in the LFS require active job searching, and includes unemployed people who are not registered. The two surveys are not, therefore, strictly comparable.

The Labor Force Survey equates being registered with the unemployment service with actively searching for a job. Yet GUS research showed that 14% of those who were registered as unemployed would not be able to start a new job within the next two weeks, and 14% were actually working. There is probably some overlap between these groups, but still we can conclude that at least one in eight of the registered unemployed were not technically unemployed members of the active labor force.

The GUS statistics on unemployment include those in the labor force over the age of 15 who have not been working in the period of the survey, have been actively looking for work in the past four weeks, and are ready to take up employment. Included as unemployed are also those who have found work within the past thirty days but are waiting for the job to start¹⁸. The inactive labor force includes all those who qualify as neither working nor unemployed.

The Labor Force Surveys, which use the ILO-OECD definition of unemployment, consistently shows a lower number of unemployed people than the figures on registered unemployment. Boeri (1994) notes how in the Czech Republic and Bulgaria, LFS figures are lower than registered unemployment, probably because of the tightness of eligibility requirements for benefits. As shall be demonstrated, the initial laxity in eligibility for unemployment benefits in Poland, as well as the continued link between access to free health care and unemployment registration may have inflated the registration figures. While Coricelli *et al.* (1995) note that the unemployment rate according to the first LFS in May 1992 was higher than registered unemployment, Góra (1996, p. 9) shows that since the third quarter of 1993, LFS figures have been lower than labor office data. In the third quarter of 1995, the LFS data showed that 2.23 million people were unemployed, while the administrative data showed 2.61 million unemployed in a quarterly average of monthly figures. As a percentage of the workforce, the unemployment rate in the fourth quarter of 1995 was 13.1%, versus 14.7% in November 1995 by registered data.

¹⁸ *Maly Rocznik Statystyczny*, 1995, p. 182.

APPENDIX 4.2

STATE SECTOR EMPLOYMENT (IN THOUSANDS)

	<i>Total</i>	<i>Agriculture ^a</i>	<i>Industry</i>	<i>Construction</i>	<i>Budgetary ^b</i>	<i>Trade and repair</i>
1Q1990	11033	643	4005	879	2189	1118
2Q1990	10691	622	3909	832	2168	1049
3Q1990	10329	595	3811	776	2175	963
4Q1990	10167	564	3717	755	2246	863
1Q1991	9952	524	3691	795	2211	853
2Q1991	9837	491	3632	818	2188	858
3Q1991	9537	432	3584	822	2098	862
4Q1991	9264	417	3395	726	2185	819
1Q1992	9004	362	3345	762	2098	798
2Q1992	8905	333	3298	771	2189	812
3Q1992	8763	313	3508	685	2076	744
4Q1992	8858	296	3363	640	2173	869
1Q1993	8602	322	3361	724	2143	867
2Q1993	8891	327	3333	712	2067	792
3Q1993	8826	348	3345	696	2115	777
4Q1993	8790	325	3318	666	2168	768
1Q1994	8849	297	3298	653	2200	756
2Q1994	8782	283	3272	656	2194	746
3Q1994	8800	269	3273	657	2200	745
4Q1994	8784	246	3266	632	2227	743
1Q1995	8884	236	3325	630	2228	791
2Q1995	8877	225	3314	639	2221	795
3Q1995	8863	213	3321	643	2216	795
4Q1995	8785	194	3299	622	2192	793
Average						
1Q90-1Q93	9611	455	3586	768	2165	883
St dev	789.4	125.6	231.8	64.4	48.6	103.2
Variation	8.2%	27.6%	6.5%	8.4%	2.2%	11.7%
Average						
2Q93-4Q95	8830	269	3306	655	2184	773
St dev	43.9	51.0	26.5	27.8	50.6	21.9
Variation	0.5%	18.9%	0.8%	4.2%	2.3%	2.8%

^a Excluding private agriculture.

^b Includes: public administration and defence (excluding defence and Internal affairs ministries),

education, and health and social work sectors.

Source: *Biuletyn Statystyczny*, various issues.

APPENDIX 4.3

STATE SECTOR EMPLOYMENT (1Q1990 = 100%)

	<i>Total</i>	<i>Agriculture a</i>	<i>Industry</i>	<i>Construction</i>	<i>Budgetary b</i>	<i>Trade and repair</i>
1Q1990	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2Q1990	96.9%	96.7%	97.6%	94.7%	99.0%	93.8%
3Q1990	93.6%	92.5%	95.2%	88.3%	99.4%	86.1%
4Q1990	92.2%	87.7%	92.8%	85.9%	102.6%	77.2%
1Q1991	90.2%	81.5%	92.2%	90.4%	101.0%	76.3%
2Q1991	89.2%	76.4%	90.7%	93.1%	100.0%	76.7%
3Q1991	86.4%	67.2%	89.5%	93.5%	95.8%	77.1%
4Q1991	84.0%	64.9%	84.8%	82.6%	99.8%	73.3%
1Q1992	81.6%	56.3%	83.5%	86.7%	95.8%	71.4%
2Q1992	80.7%	51.8%	82.3%	87.7%	100.0%	72.6%
3Q1992	79.4%	48.7%	87.6%	77.9%	94.8%	66.5%
4Q1992	80.3%	46.0%	84.0%	72.8%	99.3%	77.7%
1Q1993	78.0%	50.1%	83.9%	82.4%	97.9%	77.5%
2Q1993	80.6%	50.9%	83.2%	81.0%	94.4%	70.8%
3Q1993	80.0%	54.1%	83.5%	79.2%	96.6%	69.5%
4Q1993	79.7%	50.5%	82.8%	75.8%	99.0%	68.7%
1Q1994	80.2%	46.2%	82.3%	74.3%	100.5%	67.6%
2Q1994	79.6%	44.0%	81.7%	74.6%	100.2%	66.7%
3Q1994	79.8%	41.8%	81.7%	74.7%	100.5%	66.6%
4Q1994	79.6%	38.3%	81.5%	71.9%	101.7%	66.5%
1Q1995	80.5%	36.7%	83.0%	71.7%	101.8%	70.8%
2Q1995	80.5%	35.0%	82.7%	72.7%	101.5%	71.1%
3Q1995	80.3%	33.1%	82.9%	73.2%	101.2%	71.1%
4Q1995	79.6%	30.2%	82.4%	70.8%	100.1%	70.9%

Source: Calculations from data in *Biuletyn Statystyczny*, various issues.

APPENDIX 4.4
LABOR MARKET FLOWS

	<i>Inflow</i>	<i>Outflow</i>	<i>Outflow to job</i>	<i>Other outflows</i>	<i>Net U flow</i>	<i>Stock U</i>	<i>Jobs/Stock</i>
Nov-92	136.1	123.3	65.3	58.0	12.8	2490.1	2.6%
Dec-92	127.7	108.4	47.2	61.2	19.3	2509.3	1.9%
Jan-93	176.7	102.0	47.4	54.6	74.7	2584.0	1.8%
Feb-93	132.2	90.2	48.3	41.9	42.0	2626.0	1.8%
Mar-93	128.6	105.9	53.1	52.8	22.7	2648.7	2.0%
Apr-93	130.3	136.6	71.9	64.7	-6.3	2642.5	2.7%
May-93	127.3	145.8	76.0	69.8	-18.5	2624.0	2.9%
Jun-93	224.3	146.5	65.7	80.8	77.8	2701.8	2.4%
Jul-93	242.1	132.1	60.8	71.3	110.0	2811.8	2.2%
Aug-93	151.3	133.5	58.9	74.6	17.8	2829.6	2.1%
Sep-93	165.8	165.4	79.8	85.6	0.4	2830.0	2.8%
Oct-93	159.5	180.5	87.5	93.0	-21.0	2809.0	3.1%
Nov-93	175.4	138.3	65.1	73.2	37.1	2846.2	2.3%
Dec-93	156.8	113.4	48.0	65.4	43.4	2889.6	1.7%
Jan-94	192.1	127.0	60.1	66.9	65.1	2954.7	2.0%
Feb-94	134.5	120.3	59.7	60.6	14.2	2968.9	2.0%
Mar-94	132.7	151.5	78.5	73.0	-18.8	2950.1	2.7%
Apr-94	140.1	201.6	117.8	83.8	-61.5	2888.5	4.1%
May-94	136.2	182.2	104.8	77.4	-46.0	2842.5	3.7%
Jun-94	262.7	172.2	91.5	80.7	90.5	2933.0	3.1%
Jul-94	215.2	166.2	87.1	79.1	49.0	2982.0	2.9%
Aug-94	155.0	171.7	85.1	86.6	-16.7	2965.4	2.9%
Sep-94	181.8	231.4	117.9	113.5	-49.6	2915.7	4.0%
Oct-94	187.8	258.1	131.5	126.6	-70.3	2845.5	4.6%
Nov-94	189.4	204.3	93.9	110.4	-14.9	2830.6	3.3%
Dec-94	166.5	159.1	65.9	93.2	7.4	2838.0	2.3%
Jan-95	207.7	170.7	79.3	91.4	37.0	2875.1	2.8%
Feb-95	139.0	181.9	84.4	97.5	-42.9	2832.2	3.0%
Mar-95	148.8	227.2	117.2	110.0	-78.4	2753.8	4.3%
Apr-95	166.4	230.5	133.4	97.1	-64.1	2689.7	5.0%
May-95	155.5	245.8	125.6	120.2	-90.3	2599.4	4.8%
Jun-95	318.6	223.9	112.8	111.1	94.7	2694.0	4.2%
Jul-95	239.4	212.6	105.4	107.2	26.8	2720.8	3.9%
Aug-95	172.9	203.8	93.7	110.1	-30.9	2690.0	3.5%
Sep-95	209.8	242.6	121.6	121.0	-32.8	2657.2	4.6%
Oct-95	214.7	275.4	135.3	140.1	-60.7	2596.4	5.2%
Nov-95	216.9	216.0	96.4	119.6	0.9	2597.3	3.7%
Dec-95	181.5	150.0	62.6	87.4	31.5	2628.8	2.4%
Jan-96	250.6	161.3	78.4	82.9	89.3	2718.1	2.9%
Avg	178.2	172.0	85.0	87.0	6.2	2764.4	3.1%
Min	127.3	90.2	47.2	41.9	-90.3	2490.1	1.7%
Max	318.6	275.4	135.3	140.1	110.0	2982.0	5.2%
St dev	44.4	47.7	26.5	23.2	52.5	137.5	1.0%
Stdev/Avg	0.2493	0.2775	0.3116	0.2668	8.5046	0.0498	31.9%

Source: *Biuletyn Statystyczny*, various issues.

Chapter 5

Unemployment Matters: Voting and Economic Reform in Poland, 1990 - 1995

5.1 INTRODUCTION

This chapter investigates the importance of economic policy -- and of the resulting distribution of costs and benefits as examined in the preceding two chapters -- for voting behavior and election outcomes in Poland. Before considering the importance of the distributional effects discussed in Chapters 3 and 4 for voting patterns, it is important to mention at least two important characteristics of the Polish electoral system which have affected election results.

First, between the first and second parliamentary elections, there was a change in the rules of the game. The electoral system used in Poland's 1991 parliamentary elections was a proportional representational system with national party lists. There was no stipulated minimum percentage of the vote required to gain seats in the Sejm, resulting in a parliament divided between numerous small and ill-defined parties (see Table 5.6). Before the 1993 elections, the system was changed whereby 391 seats in the Sejm were elected by multiple seat, territorial constituencies, with a much smaller share, 69 seats, distributed by lists. Plus, thresholds of 5% for political parties and 7% for coalitions were instituted. In the 1993 Sejm elections, the SLD and PSL were able to secure about two-thirds of seats in the lower house with less than one-third of the total vote. In contrast, the smaller, post-Solidarity parties of the right paid for their inability or unwillingness to unite by being excluded from parliamentary representation despite attracting more than 30% of the total vote (Table 5.11). We can conclude that the problem of the lack of parliamentary representation of the center-right is more a reflection of their failure to form electoral coalitions than of persistent shortcomings in the institutional development of a representative democracy. The failure to form strategic coalitions was rooted in a reluctance to trade off individual party identity and independence for a greater probability of

gaining seats as part of an electoral coalition¹. For this reason, the analysis will use the distribution of votes by percentage of voters, not by seats per party.

Secondly, the concentration of this chapter on economic factors does not imply that debate on non-economic issues has no impact on voters' decisions. Approval ratings for political parties rooted in the former opposition, in particular *Unia Demokratyczna* and its successor *Unia Wolnosci*, have been damaged by accusations of overly rigorous adherence to liberal ideology and by public conflict amongst the highest ranks of these parties. It has been frequently argued that UD lost public support because it had become too rigorously ideological about pursuing liberal economic goals at the cost of a lack of responsiveness to public concerns². The UD's failure to use the media in the manner successfully employed by Vaclav Klaus in the Czech Republic could make them seem intellectually remote from the needs and demands of the voting public³. Yet the most important issues behind claims of ill-treatment have centered on -- and continue to center on -- demands for subsidization of inefficient sectors including agriculture and mining. More critically important than media relations was Balcerowicz's refusal to create a protectionist, regulatory policy for either agriculture or industry⁴. Balcerowicz (1995, p. 358) attributes farmers' opposition to reform primarily to elimination of the windfall gains in 1989 (while there is no evidence to suggest that all farmers profited equally, or that most of the gain did not in fact go to the still largely state-run agricultural wholesalers). In the next paragraph, Balcerowicz argues for the need to shift excess labor from agriculture

¹ The right wing of Solidarity was in opposition to the communist regime for a long time, long before political change and democracy seemed even remotely possible. A logical conclusion is that former opposition leaders are not only ideologically committed, but also risk takers. The hesitation of the center-right and right wing parties to give up a degree of autonomy in return for a greater probability of gaining seats may be outweighed by the possibility that a fragmented vote may leave one of these parties in the position of kingmaker, thus gaining political power disproportionate to their membership and electorate. This second strategy is riskier, but the rewards of the less likely outcome would be much greater than being one of several partners in an electoral coalition. For an application of this public choice concept to Poland, see: T. Mickiewicz, "Dobra publiczne, gra tchórza", *Zycie Gospodarcze*, 31 October 1993.

² It is possible to incorporate excessive ideological rigidity into a rational voting model, see Lopez Murphy and Sturzenegger (1993).

³ Balcerowicz (1995, p. 309), in a section entitled "Communicating with the Public", writes that he was too busy making policy to explain and publicize it, but praises a "small group of very good economic journalists" writing for national papers. Certainly, more effort could have been put into the publicity machine. More significant, in Balcerowicz's view, were the negative "by-products of the transition to democracy": the media's "strong tendency to focus on the negative and the sensational" and the hostility of the majority of Polish economists.

⁴ See Balcerowicz 1995, p. 346.

to “more productive sectors”. It is not too difficult to see how farmers might find a policy aimed at putting a proportion of them out of business to be overly ideological.

Other problems included the “war at the top”, when former opposition’s internal rifts, most visibly manifested between Walesa and Mazowiecki in the 1990 presidential race, were brought into the public eye. Despite these institutional and political factors, as well as the ongoing debate over the role of the Catholic Church, *lustracja*, abortion, foreign policy and so on, the central battleground has been over economic policy and performance. The area of debate can even be narrowed further: what is being debated is not whether Poland should develop towards a market-oriented economy modeled on the advanced systems of the West. The goal of a developed market economy is widely accepted. Rather, the core of the debate has centered on the distribution of costs and gains from market reforms, and increasingly on the role of the state in the economy⁵.

This chapter asks to what extent economic factors explain voting behavior. Two different regressions will use data on province-level economic performance. I will then draw from public opinion data to make more associative conclusions on whether there are discernible patterns between occupation or socioeconomic group (and particularly “winners” versus “losers”) and voting patterns.

Data sources

Province-level (*województwo*) data allows comparison of the relative importance of unemployment, income, and other economic variables on voting. This will be useful for estimating regressions based on macroeconomic performance, and potentially to link regional disparities with political instability. In Chapters 3 and 4, we have seen that there are identifiable socioeconomic patterns of changes in real income and unemployment rates. The *województwo* data can also be used to analyze

⁵ This conflict between liberalization and redistribution may be illustrated by the conflict between external and internal pressures on economic policy. While the present SLD-PSL government has been rapidly passing legislation to liberalize Poland’s banking and tax regulations in preparation for joining the OECD (in August 1996) and, eventually, the European Union, recent changes to the privatization law have generated serious concern about the possibility of an increasingly interventionist role of the state in the economy.

for the influence of rural versus urban residence, employment by sectors (agriculture, industry, and services), and other structural factors on voting.

There is also a substantial amount of public opinion survey material on voting which define preferences by socioeconomic category, including occupation, region, income level, education, etc. One of the most accessible sources is the series of published reports from CBOS (Center for Public Opinion Research, Warsaw). The main shortcoming of this source is that cross-category, multivariate regressions cannot be made, e.g. comparing political preferences of affluent and poor pensioners. Survey data will be used to investigate more class-oriented hypotheses about the consequences of distribution and voting, reflecting and building upon the findings of earlier chapters.

5.2 ECONOMIC VOTING

What is the link between economic performance and voting?

In simple terms, the theory of economic voting states that economic performance influences an incumbent's chances of being reelected. Higher growth, larger incomes, and lower inflation in the months before an election boost popular support for the serving government, party, and individual politician. What the exact mechanism is between the economy and voting, and which indicators are most important for which voters, is a topic of continuing debate.

An important first step is to think about how the voter selects the criteria upon which to base his or her choice in the polling booth. The most distinctive characteristic of the public choice approach to voting is the *rational voter hypothesis*, which assumes that the individual voter behaves the same way in the polling booth as in the marketplace -- rationally and in pursuit of his own self-interest⁶.

Rational self-interest can be calculated either retrospectively (based on past economic performance) or on future expectations. On the basis of each candidate's policy platforms, the voter calculates which candidate or party would deliver the

⁶ Traditional liberal economics approached economic behavior in terms of the classical concept of utility. However, J.C. Harsanyi (1992) argues that since Pareto and Hicks, behavior has been remodelled in terms of preferences. While rational behavior involves the maximization of one's utility function, utility itself is defined in terms of preferences, and it is preferences which define economic behavior.

highest “streams of utility” (Mueller 1989, p. 349) once elected. Either way, the calculation of potential benefit is self-centered, as the voter only takes his own welfare -- past and/or future -- into account. In this light, the connection between economic performance and voting, at least on the aggregate, seems logical.

Having thought about how voters act, we should also address how utility and policy connect. If voters judge governments on economic performance, then it a logical conclusion is that incumbents may attempt to manipulate or influence economic indicators in order to gain votes. The *political business cycle* theory posits that incumbents will intentionally use and manipulate macroeconomic policy to influence people’s vote. Nordhaus (1975), Fair (1978, 1982, 1996) Hibbs (1982, 1987), and Alesina and Rosenthal (1995) have examined the effects of macroeconomic policy and performance on incumbents’ electoral success. The idea is that governments attempt to convince voters of, or fool them into believing in, their competence by adopting expansionary policies to maximize employment or incomes right before the election, i.e. by moving along the short-term Phillips curve. Voters judge the incumbent by his ability to keep unemployment and inflation low, and growth high. If this works, the incumbent can create a “feel-good factor” before the election. The drawback is that if the economy is not fundamentally sound, there will be costs to pay after the vote, through a jump in inflation and/or a recession. The rational expectations school argues that people cannot be fooled by this type of behavior, but the rational choice school, with its assumption of **imperfect and costly information**, leaves room for this tactic to work.

The question of whether governments can successfully manipulate economic performance prior to the election is secondary to our investigations. This dissertation is concerned with how voters react to the state of the economy, to their personal economic and financial situation, and their evaluation of the potential returns (or “streams of utility”) from each party’s policies and preference sets. There have been many studies into the effect of actual rates of unemployment, national income growth, and inflation for election results, and into the linkages between popularity or approval rating of incumbent politicians and governments and macroeconomic performance (see Schneider and Frey 1988, Keech 1995, and Mueller 1989, p. 280 ff. for a survey of numerous findings). While Fair’s application of this idea to U.S. presidential

elections has been quite successful⁷, others believe that the data shows voting results to be inconsistent with the political business cycle theory, in that the correlations between the incumbent's share of the vote and unemployment, national income, and inflation tend to be irregular and inconclusive.

While rational choice theories of voting are predicated on the "selfish voter", Smith's (1975) analysis of voting on tax equalization showed that people can act in apparent contradiction to their own economic interests and welfare. Again and again, the question arises about how to account for the contradiction between what political science terms "self-interest" and "social interest". Public choice allows this conflict to remain within the rational framework by adapting the voter's preference set to include wider social concerns. Conceivably, people make the connection between their own personal welfare and the "public interest" of the economy or country as a whole.

Mueller (1987, p. 89) provides a utility function which aims to incorporate these considerations, in that the voter i seeks to maximize:

$$O_i = U_i + \Theta \sum_{i \neq j} U_j$$

where Θ equals 0 for the selfish voter and 1 for the altruistic or socially-oriented voter. If we disregard concerns of whether it is rational to vote and instead concentrate on the choice of candidate, we are still left with the problem of not being able to tell from the *województwo* level data what weights these utility functions are given in the overall set of preferences. In this chapter, we shall proceed onto operational voting functions, which will shed light on the relative weight of these factors. For the present discussion, I will assume that $\Theta < 0.5$, being that the average voter weighs personal experience more heavily into their utility function than social welfare. I believe it is a realistic assumption that voting behavior is a combination of both self-interest and socially oriented voting, but that the weight is greater on the former.

Another point is that people may attach more utility to the welfare of people close to them, whether in their family, town, or *województwo*, than they attach to the

⁷ See review article in the *Economist*, 5 October 1996, p. 116; and the full paper: Fair, 1996, "Econometrics and Presidential Elections", *Journal of Economic Perspectives*, No. 3.

welfare of the country as a whole⁸. Therefore, we might expect that the use of data from the regional level will express some of these relationships which do not emerge from the national data, just as cross-sectional data can reveal aspects which are not visible in time-series data. This incorporation of self and society into individual preference sets can be illustrated through the case of unemployment. In areas of high unemployment, even people who are still employed may perceive a higher probability of losing their own job in that environment, or they may consider high unemployment to lower the entire community's welfare. Therefore, we can expect a greater preference for redistributive or pro-employment policies in high unemployment regions.

5.3 UNEMPLOYMENT, INCOME, AND VOTING

For more than thirty years, scholars have debated whether personal experience of unemployment and stagnating real wages affects individual voting behavior more than wider social preferences. Kramer (1971) argued along the lines of Downs' model (1957) that fluctuations in personal income, rising inflation, and higher unemployment do affect voting behavior. Kramer relegates the effects of incumbency and campaign tactics, and the "coattail effects" (of a preceding presidential election for Congressional races) to error terms. If this theory is correct, **coefficients for real and nominal income should be positive, and price and unemployment coefficients negative**. Kramer's regressions showed significant connections between voting and price and income variables, but the coefficient for unemployment was the wrong sign, possibly because the unemployed are usually less likely to vote. Despite this, the rationale and the argument are very persuasive. The assumption that individual financial and employment conditions influence voting behavior has permeated many scholars' assumptions about the political economy of elections.

However, the connection between personal incomes, unemployment, and voting has been seriously challenged. Kramer's model has been criticized for not

⁸ Alternatively, voters may take local and regional performance as a proxy for national performance. This would also result in regional variation in preferences, although from different bases of understanding. However, national figures for leading indicators are widely publicized, enabling comparison with local performance.

providing sufficiently consistent results. In 1979, Kinder and Kiewiet also examined voting in US Congress elections. They operated on the null hypothesis that people dissatisfied with their own financial situation should vote against the incumbent, and likewise, that the unemployed should also prefer the opposition to the incumbent. In accordance with their hypothesis, Kinder and Kiewiet found that general "collective judgments" were more important for election outcomes than "personal economic grievances". Kinder and Kiewiet's regressions showed that general trends such as the business cycle, economic issues of national importance, and the managerial competence of parties had a greater influence on voting than voters' personal financial situation. They found little evidence of consistent and predictable voting patterns by employment status, satisfaction, or even amongst the working class and other groups who are vulnerable to policy shifts. If Kinder and Kiewiet's thesis holds, then **coefficients for personal income and unemployment should not be significant.**

Of all the possible economic variables which could be used to try to explain voting, these two classic models agree that unemployment and changes in real income are the most politically salient factors, because of the very real social costs they impose. People's most basic economic concerns, after all, are ensuring a source of income and the level of that income in absolute and relative terms.

The case of Poland is different from the established and (more or less) stable U.S. economy, on which these models are often based. Poland's economy is still not in equilibrium. Because of the transition from a planned economy, the dual program of liberalization and stabilization, not to mention the emergence of open unemployment, complicates any attempt to find a simple Phillips' curve trade-off between inflation and unemployment. Both inflation and unemployment continue to dominate public concerns about the economy and personal well-being in transition economies, but these are not given equal weights. Rose and Haerpfer (1996, p. 13) found that when asked whether rising prices or unemployment presents a greater threat to one's household, 76% of Polish respondents chose unemployment, while 24% felt inflation to be a bigger threat. Moreover, there is strong evidence that voters attribute the distributional consequences of transition to the incumbent. The transformation of the economic system and the resulting (re)distribution of national

wealth and income was intentionally undertaken by acts of government, which opened determination of wages and prices to market forces. As shown in Chapter 1, the public evaluation of transition was rather negative. However, the weight of positive to negative evaluations is rising as the benefits of economic growth and recovery are making themselves felt through higher wages and slowly rising employment.

We shall look for a relation between these aggregate macroeconomic indicators and voting patterns in the 1990 and 1995 presidential elections. *Województwo* level figures for per capita income and unemployment will be compared to election results from the same regional level. After looking at the raw data and making simple correlations, we can then perform OLS regressions on unemployment, income, and voting in Poland's regions.

The 1990 presidential election

In November 1990, Poland was falling into a worse transformational recession than originally and optimistically anticipated. GDP declined by approximately 12% in 1990, a sizable drop even considering the potential bias from statistical distortions. Nearly 6% of the labor force was unemployed in November, up from 0.3% in January and 2.4% in May 1990. Industrial production was down 15.3% for the year, with important industries such as metallurgy and textiles particularly hard hit. The monthly CPI in November was 4.9%, which was a definite improvement from 79.6% in January but an increase over the low rate in August (1.8%)⁹. Inflation was gradually easing, and both imports and exports were rising, but unemployment and the delayed threat of further labor shedding increased the level of personal economic insecurity (Bell and Mickiewicz 1997).

Table 5.1 contrasts the actual polling results from the first round of elections with preferences one week before the election as surveyed by CBOS, and PGSS responses from their 1992 survey. In the first round of Poland's first post-communist presidential election, held on 25 November, no single candidate won an absolute majority, thus requiring a second round on 9 December. While the CBOS and official figures are slightly different, the candidates finish in the same order in both lists and

⁹ GUS figures.

comparison of the CBOS results with official figures places the opinion data close to a standard error of 3%.

TABLE 5.1

VOTE IN FIRST ROUND OF PRESIDENTIAL ELECTION, 27 NOVEMBER 1990

	<i>Official data</i>	<i>CBOS poll</i>	<i>PGSS</i>
Walesa	39.96%	36%	46.7%
Tyminski	23.10%	26%	14.7%
Mazowiecki	18.08%	22%	17.8%
Cimoszewicz	9.21%	6%	4.5%
Bartoszcze	7.15%	8%	3.9%
Moczulski	2.50%	1%	2.8%

Source: *Rzeczpospolita*, 1-2 December 1990; CBOS, 1990, "Elektorat na tydzień przed wyborami", Report No. 683/90, November, p. 15 (N=1017); Polish General Social Survey, 1992, (N=1647).

As an aside, it is noteworthy that polls taken close to the date of the election are preferable to ones taken months or even years later. It is only understandable that shifts in popular approval of politicians and parties may cause voters to remember their choices differently as time passes.

That said, do the polling results and theory of economic voting match up at first glance? In 1990, Tyminski represented the complete political outsider; he campaigned on a populist platform, and appeared to have no ties to any pre-existing political organization. Both Mazowiecki and Walesa were in the post-Solidarity camp, but as the serving prime minister, Mazowiecki was the policy-making incumbent, and therefore the most clearly connected with current government policy. Walesa had one foot in the anti-Communist, pro-reform, Solidarity camp and one in a more populist, anti-Mazowiecki position. While Cimoszewicz and the SdRP were still too closely associated with the largely discredited PZPR regime, there appears to be a hard-core of about 10% who continued to vote for these candidates. Bartoszcze and the PSL were and are closely identified with the well-defined lobby of small private farmers. The PSL, which participated in PZPR governments, capitalized on its superior grassroots organization to fight off challenges for the peasant vote from Rural Solidarity and its successor party, PL (*Porozumienie Ludowe*), established in 1991.

As noted, the recession was deepening in late 1990, but inflation was falling and the shortages which characterized the severe disequilibrium of the late socialist

period had disappeared. By November, the Mazowiecki government's "honeymoon" was over, bringing Polish politics into the period of "ordinary politics". Yet as each month passed, the serious threat of policy reversal lessened. At the distance of several years, it might be easy to conclude that Mazowiecki's third place showing is not surprising. However, Mazowiecki and his supporters were taken unawares¹⁰; just a few months before, their candidate had high and wide ranging popular support. The number of votes for Tyminski reflected skepticism and fear, but his campaign message also contained libertarian elements which attracted support from some higher income people. In the end, Walesa's platform of progress (he criticized Mazowiecki for not reforming quickly enough) tempered with populism won out over the clear protest vote.

A simple macroeconomic model of voting

Voting functions can incorporate a wide range of economic and non-economic data, such as rate of GDP and/or personal income growth, recent trends and levels of popularity in public opinion polls, the exchange rate, incumbency, and so on. In this chapter, a simple multivariate model will be used to analyze how well per capita income and unemployment rates explain voting patterns in Poland. Research into voting in the US often uses aggregate macroeconomic indicators to explain the dependent variable of the vote distribution across several decades of elections (e.g. Fair 1996). However, Poland has only had two presidential and two freely contested parliamentary elections since 1990, and so any regressions based on four observations would be patently unreliable.

Instead, I will use a technique which is not only better suited to the available data, but which will allow us to continue our investigation into the politics of the distribution of economic costs and benefits. The simple equation is as follows:

$$V = b_1 + b_2I + b_3U$$

¹⁰ See Balcerowicz 1995, p. 298.

where V is the share of the vote gained by the designated candidate in each of 49 provinces (*województwa*), I is average per capita monthly income (on an annual average) in the *województwo*, and U is the provincial unemployment rate.

For the 1990 presidential election, the above equation was used to estimate the impact of personal income and regional unemployment levels for support for each of the top six candidates in the first round of voting. Results are shown in Table 5.2. It should be noted that this regression uses data for per capita income for the year 1990 as a whole, as this is the data available from the *Rocznik Statystyczny* in terms of per capita income, not just average wages in industry or construction. However, each of Poland's post-communist elections was held in the end of the third or in the fourth quarter of the year, and so this is an adequate proxy for incomes on the day of the election.

TABLE 5.2
PERSONAL INCOME AND UNEMPLOYMENT LEVELS
FIRST ROUND OF 1990 PRESIDENTIAL ELECTIONS

This regression was performed for each of the five candidates who came highest in the first round of the election. While we cannot attribute the entire election outcome to the combination of income and unemployment (the highest R^2 was for Tyminski, at 0.402), significant effects do emerge which tell us about the relative influence of these factors.

Walesa finished more strongly where there was less unemployment and lower per capita incomes. This is demonstrated through the high and statistically significant coefficient for unemployment. The total impact of lower incomes is not as conclusive, but is still within a confidence interval of 99.1%. Walesa's electorate can be characterized as the working poor; typically low-skilled industrial workers whose wages have fallen in real as well as relative terms during transition. Votes for Walesa can be typified by a negative relation with unemployment and incomes.

Tyminski finished in second place in the first round. There is a strong link between higher unemployment and support for Tyminski. Tyminski's populist and redistributionist themes attracted a proportion of the newly emergent group of unemployed, and unemployment was a stronger factor for Tyminski than for Walesa.

As noted, there was also a strong libertarian theme, such as in his call for low taxes. These statements received support from people with higher incomes, but this effect was weaker and somewhat less significant than unemployment. Tyminski received more support from areas with **higher unemployment and higher incomes**; a somewhat contradictory picture but in keeping with his eccentric electioneering promises.

The coefficients for income and unemployment as regressed against election results for Mazowiecki reveal that his electorate is in favor of economic policy according to Kramer's argument: **the coefficient for nominal income is positive and that for unemployment is negative**. Income was the more important determinant, being significant to 0.4%. This is entirely consistent with public opinion data which shows that UD and subsequently UW voters typically come from the professional, managerial, and intellectual classes. People with higher incomes and more secure employment, and the education which enables this status to be attained, are more likely to support market-oriented reform than more vulnerable groups, such as industrial workers and farmers.

Bartoszcze was the candidate of the Polish Peasant Party (PSL), and public opinion data shows that the bulk of his support comes from the rural and agricultural population. As such, it is not surprising that **unemployment rates have no significant impact** on voting for Bartoszcze. However, **lower per capita incomes show a strong relation**. As shown in Chapter 3, farming households experienced a sizable fall in real incomes in 1990, to below average levels. Several studies, including this one, have definitively shown that rural households were disproportionately affected by falling real incomes. Therefore, this finding is consistent with the empirical data.

Finally, the candidate of the ex-communist SdRP, Cimoszewicz, attracted just over 9%, nearly 2% more than Bartoszcze. That a former communist managed to attract nearly one in ten votes surprised some observers. However, it should be remembered that in the 1989 semi-free parliamentary elections, candidates from the combined government list (PZPR, ZSL, and SD) received 3.34 million votes¹¹, an

¹¹ A. Kublik and P. Pacewicz, 1995, "Nasza wyborcza szcziolotka", *Gazeta Wyborcza*, 1 December, p. 2.

electorate which in 1990 was mostly split into 1.176 million for Bartoszcze and 1.5 million for Cimoszewicz. For the 1990 vote, it is important to note that higher unemployment rates were positively linked to support for Cimoszewicz, with a coefficient of 0.6, significant to 1.4%. There was little sign of any relation to income levels, but overall this result is consistent with the eventual consolidation of the post-communists -- and not the eccentric Tyminski -- as the legitimate recipient of the unemployed vote.

These regressions reveal a great deal about the impact of unemployment and income for voting in post-communist Poland's first presidential election. Furthermore, nearly all of the coefficients have the expected sign, as predicted by our simple model of economic voting, as well as by the findings of the empirical study of the distributional effects of transition presented in Chapter 3. Later in this chapter, we will further develop an interpretation of the combinations of coefficients and significance levels in light of public opinion survey data on socioeconomic voting patterns.

The same regression can be used to analyze the results of the second round of the 1990 presidential election, in which Walesa defeated Tyminski (Table 5.3). Again, the independent variables explain about one-third of the total deviation from trend. The coefficient for income is negative, but with a low coefficient and significance level. The most interesting finding is the negative relation between unemployment and support for Walesa. That is, higher unemployment is associated with a higher vote for Tyminski and, conversely, areas with lower unemployment tended to support Walesa.

We can also conclude that voters who selected Mazowiecki in the first round supported Walesa in the second, as did farmers. The threat of Tyminski becoming elected mobilized support for Walesa across a wider range of social groups and interests than in the first round. Mazowiecki voters were "trapped" during the second stage of elections. If we think of the candidates being on a spectrum from full continuity of reforms to populism, Mazowiecki was clearly pro-market and Tyminski populist, with Walesa at a vague location between the two. Although Walesa's policies were not completely desirable to Mazowiecki voters, the dilemma was that the overriding need to defeat Tyminski dominated the negative aspects of Walesa's

platform. Therefore, the shift of support from Mazowiecki to Walesa is logical, and indeed was crucial in the latter's victory.

TABLE 5.3
REGRESSION RESULTS FOR WALESA IN SECOND ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	1.031	0.172	6.006	0.000
INCOME	-0.134	0.160	-0.839	0.406
UNEMPLOY	-2.641	0.540	-4.893	0.000

N = 49. R square: 0.345. Adjusted R square: 0.317. SEE: 0.076. F-ratio (sig): 12.117 (0.000)
All numbers rounded off to third decimal place.
Source: Parysek *et al.*, 1991; own calculations from GUS data.

While the regressions presented above indicate clear trends of economic voting, the regional distribution of the vote for Walesa shows that there is a deeper layer of complexity in Polish politics. Overall, Walesa won almost 40% of the vote in the first round. By *województwo*¹², the lowest plurality for Walesa came from Leszno, a predominately agricultural region in the central west of Poland. Agriculture accounts for 41% of Leszno's employment and 52% of its residents live in rural areas, as compared to 29% farming employment and 38% rural residence for Poland as a whole. The unemployment rate in Leszno was below average (5.5% versus 7.0% for Poland in November 1990), but its per capita income, at 941,000 PZL, was below the regional mean of 980,000 PZL. Walesa's best showing was in the Nowy Sacz *województwo*, with 62% of votes. The south-east provided a solid base of support for Walesa in the 1990 and 1995 elections. Nowy Sacz is even more rural than Leszno, with 46.7% of employment in agriculture and only 16% in industry. Two-thirds of people in Nowy Sacz live in rural areas; nearly the exact inverse of the national rural-urban divide. Its unemployment rate was similar to Leszno, at 5.8%, and its per capita income was even lower (886,800 PZL monthly). Demographically, these two regions are very similar but their voting patterns are very different. For instance, Leszno gave 28.7% of its votes to Tyminski, while in Nowy Sacz only 11.3% voted for him. This divide shows that historical and political influences are also important for election results. Western Poland, where social

¹² Election data from Panstwowa Komisja Wyborcza (1990) and Parysek *et al.* (1991), p. 1322; economic data from *Biuletyn Statystyczny*, monthly, No. 1, 1991.

traditions are weaker due to the post-Second World War migrations, tends to show greater support for the post-communist parties. South-eastern Poland is a Solidarity stronghold despite its lower incomes and high proportion of farmers. While this dissertation emphasizes the detectable links between social and economic indicators and voting patterns, it is useful to retain a perspective on the complexity of Poland's developing party system.

The 1995 Presidential Election

The 1995 presidential campaign was characterized by the refusal of the anti-communist right to unite behind one candidate, bitter personal attacks, and Walesa's unique contribution of vetoing the 1996 budget and then threatening to dismiss the Oleksy government for not having passed the budget. The anti-communist specter still played an important role; between the election and Kwasniewski's inauguration, Interior Minister Milczanowski revealed intelligence reports that Prime Minister Oleksy allegedly had long term contacts with a known KGB agent. Although the allegations were eventually dropped, it brought about Oleksy's resignation as premier¹³ and replacement by the more palatable (to anti-communists) Cimoszewicz. These claims were not important enough, however, to prevent the election of the former PZPR minister and Roundtable participant, Aleksander Kwasniewski.

The 1995 presidential election was not only closely fought, but it also exemplified the central problems and issues of the developing party system in Poland. As in the 1991 and 1993 parliamentary campaigns, the center-right, nationalists, and Christian democrats ruled themselves out of any chance of victory through their failure to unite behind a single candidate. Without delving too deeply into politicians' motives at this point, coalitions are generally harder to form in presidential elections because of the difficulty or impossibility of sharing amongst the victors.

In the first round, Olszewski and Gronkiewicz-Waltz drew away about 10% of votes from the potentially pro-Walesa nationalist and Christian right, after long and protracted maneuvering (e.g. the largely ineffectual St. Catherine's Convention). The poor showing of Pawlak (3.7%) reflects a decline of public support for the PSL, whose participation in the coalition government has been distinguished by cronyism

¹³ Although he was immediately elected leader of the SdRP.

and patronage, as well as an aggressively protectionist, anti-privatization, and agrarian policy stance¹⁴. Despite being Poland's most popular and respected politician, concerns about Kuron's health damaged his chances¹⁵. As shown in Table 5.4, the close result between Kwasniewski and Walesa reveals this to have been a two-man race.

The OBOP exit polls are very close to the official results, and an improvement on the 1990 results. However, it is interesting to notice that the largest differences between survey data and official figures are for Kwasniewski and Pawlak; one could speculate that there is some residual hesitancy to admit publicly of having voted for post-communists or the controversial former premier Pawlak. Marody (1995, p. 268) also makes this connection between the difference in survey and election tallies, and suggests that voting for the SLD and its candidates is still seen as "morally improper behavior".

TABLE 5.4
VOTE SHARES IN THE FIRST ROUND OF THE 1995 PRESIDENTIAL ELECTION

	<i>Official results</i>	<i>OBOP exit poll</i>
Kwasniewski	35.1%	33.7%
Walesa	33.1%	33.1%
Kuron	9.22%	10.0%
Olszewski	6.9%	7.0%
Pawlak	4.3%	3.7%
Zielinski	3.5%	3.7%
Gronkiewicz-Waltz	2.8%	3.0%
Korwin-Mikke	2.4%	2.8%

Source: Official results: *Maly Rocznik Statystyczny*, 1996, p. 73-4.

OBOP data: *Gazeta Wyborcza*, 6 November 1995, (N=1145), p. 1.

While personalities played highly symbolic roles in the 1990 election, the personal characteristics of the candidates was more influential in the 1995 election. In a survey conducted by OBOP for *Gazeta Wyborcza*¹⁶ on 19 November 1995, 54% of Kwasniewski voters chose their candidate in the first round because Kwasniewski had "a responsible character [and] individuality", whereas 46% of Walesa supporters were

¹⁴ For instance, the controversies over PSL's connections with BGZ in both the recapitalization program and PSL renting office space from BGZ at absurdly low rates; PSL's constant blockading of any progress in privatization, its constant lobbying for protection and tax breaks for the sole benefit of peasant farmers, etc.

¹⁵ Not to mention the recurring theme of anti-Semitism.

¹⁶ "Jak Kwasniewski glosy zebrał", *Gazeta Wyborcza*, 21 November 1995, p. 2.

motivated "because it was impossible to support any other candidate"! Because there was a widespread feeling that many people were forced to vote against ideological beliefs (anti-communism) in favor of a more pragmatic evaluation of economic welfare, the victory of Kwasniewski may be an indicator of the rise of rational, economic voting associated with the advancement of social, political and economic reform and consolidation in Poland. Conversely, it could demonstrate negative voting against Walesa.

In comparison with the economic situation in 1990, Poland was in worse condition in regards to unemployment; 14.7% of the workforce was unemployed in November and for the year as a whole, there were nearly two million fewer people working than in 1989. On the positive side, the economy was in its third year of strong expansion. GDP grew by 6.5-7% for 1995 and real wages were rising, up 4.5% for the year. There were signs that unemployment was beginning to fall from its peak of 16.4% in 1993. In two years of the SLD-PSL coalition government, some protectionist agricultural policies such as minimum guaranteed prices and import price equalization payments had been implemented, even if not at the high level demanded by farmers. Despite considerable social agitation from retirees, the average pension has kept pace with consumer prices.

Judging from the economic data, the strong and sustained growth rate, as well as the falling rate of unemployment and rising real wages, would appear to support a Walesa victory as presidential incumbent. However, in the Polish political system the parliament and the cabinet are more important loci of policy making, and both of these have been in the hands of the SLD-PSL coalition since the September 1993 elections. Furthermore, the SLD have controlled the key economic ministries and the post of prime minister since 1994. Therefore, in our interpretation, incumbency should be understood as being control of the government rather than presidency, as in models used for the US. Because of the use of regional rather than time series data, dummy variables for incumbency will not be introduced into the regression.

In spite of Balcerowicz's well-founded argument that Poland's present growth was made possible by the tough policies of 1990-91, the intuition is that retrospective voting in Poland only extends back for about two quarters. This may be especially true because of the rapid economic change and political turnover between 1990 and

1993. Since 1993, political and economic conditions have been much more stable. While there is a good argument that this was the medium-term result of the radical transition, in the mind of the average voter this greater stability was probably related to the contemporaneous political accession of the SLD (but probably less so for the junior coalition partner PSL).

The first interesting observation is that the results for the center-right and right wing candidates apart from Walesa all demonstrate lackluster figures. Gronkiewicz-Waltz and Korwin-Mikke share a negative relation to unemployment and a positive relation with income, but at insignificant levels. Olszewski has a better relation with lower unemployment rates; a one percent drop in regional unemployment is related to a 0.22 percent rise in his support.

TABLE 5.5
REGRESSION RESULTS FOR FIRST ROUND OF PRESIDENTIAL ELECTION, 1995

	<i>R square</i>	<i>Adj. R square</i>	<i>Unemployment (significance)</i>	<i>Income (significance)</i>
Gronkiewicz-Waltz (Ind.)	0.1762	0.1404	-0.0172 (.3360)	0.0284 (0.0235)
Korwin-Mikke (UPR)	0.2782	0.2468	-0.0054 (0.7987)	0.0540 (0.0005)
Kuron (UW)	0.2456	0.2128	0.1573 (0.0272)	0.1787 (0.0005)
Kwasniewski (SLD)	0.0684	0.0279	0.5273 (0.0773)	0.0833 (0.6791)
Olszewski (ROP)	0.1414	0.1040	-0.2205 (0.0090)	-0.0799 (0.1563)
Pawlak (PSL)	0.1866	0.1512	-0.2278 (0.0884)	-0.2882 (0.0024)
Walesa (Ind.)	0.2318	0.1984	-0.9667 (0.0006)	-0.1866 (0.3042)
Zielinski (Ind.)	0.3032	0.2729	0.0437 (0.0452)	0.0650 (0.0001)

Source: Panstwowa Komisja Wyborcza (1996); own calculations from GUS data.

The figures for Walesa do not have an outstanding R square, but the coefficients show the consistent relation with lower unemployment and lower personal incomes. Moreover, the coefficient for unemployment is not only very high, but it has an extremely good level of significance. Walesa's electorate attracts more people in employment rather than the jobless.

Another interesting observation from this table is that Kuron achieved stronger relations to both higher unemployment and higher income than Kwasniewski. It is important to note that the pattern of support for Kwasniewski does show a strong link to unemployment; while the coefficient is higher for Kwasniewski, Kuron's unemployment coefficient has a higher significance level. Also, both of these candidates show a positive relation to higher income, although this is stronger for Kuron.

Finally, while Pawlak did not receive a sizable share of the total vote, the regression run on regional levels of support reveal considerably strong relation to both lower unemployment and lower income, typical of rural *województwa*.

TABLE 5.6
REGRESSION RESULTS FOR KWASNIEWSKI IN SECOND ROUND, 1995

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.208	0.175	1.190	0.240
INCOME	0.158	0.220	0.717	0.477
UNEMPLOY	1.408	0.321	4.392	0.000

R square: 0.309. Adjusted R square: 0.279. SEE: 0.101. *F*-ratio: 10.295 (0.000)

All numbers rounded off to third decimal place.

Source: Panstwowa Komisja Wyborcza (1996); own calculations from GUS data.

In the regression for Kwasniewski in the second round of the 1995 elections (Table 5.6), the clear conclusion is that unemployment was again the decisive factor. Higher unemployment rates are linked to support for Kwasniewski. Income was also positive, but much less important, suggesting that a wide range of income groups, and therefore social groups, voted for the SLD candidate.

Economic Voting in Poland's Parliamentary Elections

So far in this chapter, we have examined whether and to what extent economic factors can explain voting in presidential elections. However, because the cabinet and the parliament are the seats of policy making it is important to apply the same methodology to Sejm elections. The results for parliamentary elections are overall much weaker than for presidential votes. The most important reason is that because of the high number of parties, no party received a majority in any *województwo*. With smaller shares for each party and a more fractionalized vote, the

results are weaker¹⁷. This is especially true for the anti-communist right, which has tended to be divided into many small parties.

TABLE 5.7
SHARES OF VOTES IN 1991 PARLIAMENTARY ELECTION

October 1991 Sejm elections

Table 5.7 lists the parties which received more than 2% of the total vote. As already noted, the first freely elected Sejm was highly fractionalized. Once elected, nearly a quarter of deputies changed political alliance or party. This was especially true of former Solidarity representatives. Not only did numerous deputies not have any clear party identity, but also apparently few obligations to represent the interests of those who voted them into office. Because of the large number of small parties, the Olszewski and Suchocka governments were large coalitions, numbering seven partners before the no-confidence vote in July 1993. In terms of overall explanatory power, the income-unemployment regressions are weaker than for the presidential elections. However, amongst the larger vote-gainers, we can discern patterns of support based on economic indicators.

First, let us consider the political economy of 1991. After the defeat of Mazowiecki in the presidential election, the leader of KLD, Bielecki, served as prime minister until the election. The most important development of 1991 was the financial collapse of the state enterprise sector. Government tax on enterprises was high, and profitability was declining. The worsening budget deficit made it impossible to grant further subsidies to industry. Education and health sectors were also squeezed. By the autumn of 1991, Poland was nearing the depths of the transitional recession. Output and real wages were still falling, and the growth in unemployment was gaining pace. While in 1989, liberalization of food imports eased shortages, in 1991 farmers demanded protection from cheap imports. Farmers, state sector employees, health sector workers, and of course pensioners were all voicing increasingly strident opposition to the burdens of fiscal austerity and adjustment.

¹⁷ It can also be noted that the number of cases varies with the number of regions in which the parties ran candidates.

TABLE 5.8
REGRESSION RESULTS FOR 1991 SEJM ELECTIONS: UD, KLD
UD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.164	0.088	-1.854	0.0702
INCOME	1.643	0.504	3.263	0.0021
UNEMPLOY	-0.018	0.138	-0.134	0.8940

N = 48. R square: 0.195. Adjusted R square: 0.159. SEE: 0.038. F-ratio (sig): 5.443 (0.0076)

KLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.210	0.051	-4.124	0.0002
INCOME	1.625	0.291	5.579	0.0000
UNEMPLOY	-0.034	0.080	-0.425	0.6731

N = 48. R square: 0.417. Adjusted R square: 0.391. SEE: 0.022. F-ratio (sig): 16.094 (0.000)

All numbers rounded off. Source: GUS, Panstwowa Komisja Wyborcza (1991).

In this environment, the low level of support for UD is not surprising. It was, however, a shock in popular support from which it has not recovered. One significant result from the regressions is the link between higher income and stronger support of UD, which is consistent with Mazowiecki's electorate in the 1990 presidential election. The coefficient for unemployment is negative, but with a weak significance level. Overall less than 20% of the UD vote can be explained by these two variables. The pattern of coefficients is the same as for Mazowiecki in 1990, **positive for income and negative for unemployment**, indicating that support for the pro-reform policies of the UD and KLD come from the winners, or at least from those who have lost less. Overall, the R square for UD in 1991 is lower than that for Mazowiecki in 1990.

While the KLD's membership and electoral support were always small, the party was disproportionately influential in deciding policy in the 1989-1991 government. They were in a difficult position by autumn 1991, partially because they were leading a minority coalition government. The other problem was that the Bielecki government stuck to the difficult policy of reducing the fiscal deficit. Implementing austerity measures on top of a deepening recession ("transformational" or not) created the widespread impression that the liberals were pursuing this policy on principle despite the costs inflicted on society. Now, once again I am not going to delve into medium-term issues of the relative costliness of fast versus slow reforms.

Yet the maintenance of liberal economic preferences during the emergence of recession and unemployment, as well as the handling of controversial distributional issues such as privatization, pension reform, and the budget, may have convinced the public that the KLD, and UD, had become ideologically committed to liberal reform, even if at the expense of pursuing the socially optimal, pragmatic policy.

Such a definite commitment to reform suggests that the KLD's natural constituency will be even more strongly identifiable through higher income and lower unemployment rates than even the UD. The UD, remember, has retained a substantial social democratic wing, with its most prominent member being Jacek Kuron. As for the regression results for the most identifiably economic liberal party, the KLD had the best overall performance for the 1991 election. More than 40% of the variation in support is explainable by these two independent variables. The coefficient for income is close to that for UD but even more highly significant. Like the UD vote, the link with unemployment is negative but with a very low reliability. The prediction for KLD was right in assuming that this party displays a **strong positive relation to income, and a negative, weaker dependence on unemployment rates.**

TABLE 5.9

REGRESSION RESULTS FOR 1991 SEJM ELECTIONS: PL, KPN

PL

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.594	0.122	4.847	0.0000
INCOME	-2.676	0.692	-3.864	0.0004
UNEMPLOY	-0.443	0.195	-2.277	0.0279

N = 45. R square: 0.301. Adjusted R square: 0.268. SEE: 0.052. F-ratio (sig): 9.036 (0.0005)

KPN

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.088	0.065	1.349	0.1840
INCOME	0.006	0.371	0.015	0.9879
UNEMPLOY	-0.151	0.102	-1.487	0.1441

N = 48. R square: 0.047. Adjusted R square: 0.005. SEE: 0.028. F-ratio (sig): 1.120 (0.3351)

All numbers rounded off to third or fourth decimal place.

Source: GUS, Panstwowa Komisja Wyborcza (1991).

Considering the split of Solidarity in 1990, what happened to the other post-Solidarity parties in the 1991 election? *Wyborcza Akcja Katolicka* (WAK, or

Catholic Electoral Action) came third in the polls with 8.7%. The leading partner in this electoral coalition was *Zjednoczenie Chrzescijansko-Narodowe* (National Christian Union -- ZChN), which as the name implies, is a conservative party emphasizing Christian and nationalist values. In terms of economic policy, it is slightly less clear, although ZChN did support Suchocka in the coalition up to September 1993. Next in the election results was *Porozumienie Obywatelskie Centrum* (Center Alliance, abbreviated to POC, then PC). This party had close links to Walesa, although these were largely severed in subsequent years.

By this analysis, none of these electoral groupings and parties performed very well. The results are recorded in Appendix 5.1, and generally reveal little. Voting patterns for WAK revealed a negative coefficient for income, -1.12 with a significance level of 0.115. The coefficient for unemployment was also negative, as with Walesa's vote in 1990, implying more support amongst areas which had encountered less unemployment. POC also showed a negative coefficient for unemployment (-0.246, significance of t-stat 0.0342), but unlike UD and KLD, there was no significant relation with income. This coefficient is positive but very low at 0.015, and the R square is below 6%. While the significance tests are not convincing, from the signs of the coefficients, the link between higher employment and lower incomes amongst the electorate of the center-right stands out.

TABLE 5.10
REGRESSION RESULTS FOR 1991 SEJM ELECTIONS: PSL-PL, SLD
PSL-PL

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.351	0.116	3.033	0.0041
INCOME	-1.476	0.659	-2.240	0.0303
UNEMPLOY	0.098	0.180	0.546	0.5880

N = 46. R square: 0.117. Adjusted R square: 0.076. SEE: 0.050. F-ratio (sig): 2.845 (0.0691)

SLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.031	0.086	0.360	0.7209
INCOME	0.303	0.492	0.617	0.5406
UNEMPLOY	0.311	0.135	2.310	0.0255

N = 49. R square: 0.108. Adjusted R square: 0.069. SEE: 0.037. F-ratio (sig): 2.736 (0.0756)

All numbers rounded off to third or fourth digit.

Source: GUS, Panstwowa Komisja Wyborcza (1991).

Of the groupings related to Solidarity, the only one with a quite strong relation to economic performance is PL, an alternative peasant party rooted in Rural Solidarity. While there is a fairly significant, **negative link to higher unemployment**, there is a very convincing significance level for the **high negative coefficient for per capita income**. This is consistent with the predicament in the villages demonstrated in Chapters 2 and 3, and is also similar to the pattern in ZChN and POC. PL supporters may have been more likely to live in areas where households were doubly hit by lower incomes and redundancies in regional industries.

Unlike the results for PL, KPN appears to base little of its electoral support on economic issues. Unlike other parties of the center-right, KPN is a secular rather than Christian party. Analysis of their electorate shows that **income has almost no effect at all, and support is negatively related to unemployment**. Voting for KPN has little basis in economic dissatisfaction, and may find more support from not just workers but also pensioners and people in more secure and well-paid jobs.

Despite the different historical associations of the PL and PSL-PL, the regression results from the PSL's election results (Table 5.10) are similar: **greater support from poorer regions**, but with a **weaker impact from unemployment**. The R square is very low, in line with the other 1991 results, suggesting that more detailed analyses are needed to explain voting.

TABLE 5.11
REGRESSION RESULTS FOR 1991 SEJM ELECTIONS: PPPP

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.023	0.017	-1.381	0.1755
INCOME	0.285	0.096	2.964	0.0052
UNEMPLOY	0.076	0.026	2.891	0.0063

N = 41. R square: 0.284. Adjusted R square: 0.246. SEE: 0.050. F-ratio (sig): 7.543 (0.0017)

All numbers rounded off to third decimal place.

Source: GUS data, Panstwowa Komisja Wyborcza (1991).

In the 1990 presidential elections, the former PZPR member Cimoszewicz garnered nearly 10% of the vote. In both elections, there was a discernible **positive relation between unemployment levels and approval of the SLD or its candidate**. In 1991, for each 1% increase in the *województwo* unemployment rate, support for

the SLD rose by one-third. However, this relation was only enough to explain only about one-tenth of the vote for the former communist party. The coefficient for income is also positive, but is not highly significant.

Finally for the 1991 elections, even peripheral, semi-serious parties can be analyzed by economic voting techniques. As the name implies, the Polish Friends of Beer Party (PPPP) started out as a stunt, but over the course of the semi-free Sejm they became identified with a pro-market ethos. This party shared a low-tax platform with Tyminski, as well as an apparently split electorate. While only a quarter of the vote is explained by the regression, the results for this party received the best significance of coefficients. The impact of changes in unemployment and income are quite low, but it is interesting to note that it varies positively with both higher income and higher joblessness. They are an interesting take on the protest party; not being populist, they appear to have attracted not only a proportion of the unemployed, but, one assumes, a proportion of maverick entrepreneurs as well.

September 1993 Sejm elections

While press coverage of the 1993 campaign again focused on the confusing array of parties, the situation was in fact improved from 1991. To start, there were about 65 parties registered nationally, as compared to over 100 parties in 1991. Furthermore, whereas 29 parties and coalitions attained Sejm seats in 1991, only 6 groups made it into the 1993 parliament. The drafters of the new electoral law did not foresee the impact of the changes, being the near-majority of seats won by the SLD, and the dominance of parliament by the two post-communist parties.

After initial panic in some quarters that market reforms would soon be reversed, most political scientists agree that the SLD won votes on the basis of party unity (as compared to the fractious cabinet politics of the Bielecki, Olszewski and Suchocka governments) and perceived responsiveness to the needs of the "average Pole". This responsiveness amounted more or less to a promise of entitlements, a slowing of reform, and a more equitable distribution of costs and benefits. Whether or not the coalition government which has remained in power since 1993 has actually fulfilled these promises is another issue.

TABLE 5.12
SHARE OF THE VOTE IN THE SEPTEMBER 1993 SEJM ELECTION

Table 5.12 provides a breakdown of the shares of votes and seats won in the pivotal 1993 parliamentary elections. The post-communist SLD (the electoral coalition of the successor to the PZPR, the SdRP, with the OPZZ trade union and the Socialist Party) and the PSL (the peasant party which also participated in communist-era governments) were able to form a government with a substantial majority. The return to power of the former communists was mirrored by the contemporaneous loss of power by pro-reform parties in Lithuania, Hungary, and Russia. Rather than expressing the desire to return to communism, the more realistic conclusion is that a substantial proportion of the population chose parties which campaigned on the promise to soften the hardships of transition, primarily through an increase in redistributive social spending.

Blazyca and Rapacki (1996) identified the key economic factors in the election to be unfulfilled, high expectations of improved living standards, especially for urban workers and farmers. Another factor has to be the continued fragmentation of the post-Solidarity center and right. The Suchocka government contained seven parties, including the in-again, out-again PSL, and was continually beset with problems mustering a majority for sensitive pieces of legislation. The SLD campaigned on a platform of unity and responsiveness to the common person's needs. Yet even some of the SLD's social initiatives had precedents in the post-Solidarity governments; the current "tripartite commission" which negotiates annual wage increases was preceded by Suchocka's proposed "enterprise pact".

The general continuity of macroeconomic policy, and in particular fiscal restraint, under the SLD-PSL government is interesting. As the senior coalition partner, the SLD has controlled the economics ministries; this has been a major source of tension between the coalition partners. Arguably, macroeconomic policy is constrained not only by the influence of the IMF, but also by the Poles' own desire to move towards economic convergence and eventual integration with the EU.

Along the lines of the partisan model of political economy, there are indications that the governing coalition has pursued some of its goals of easing the costs of transition. Inflation has not subsided nearly as quickly as hoped, and the rate

of disinflation has tapered off substantially. The government budget accounted for 54% of GDP in 1994, and transfer payments has increased its share in total government expenditures, from 32.6% in 1993 to 36.4% in 1994. Total government debt has also increased, from 12% of GDP in 1991 to 24% in 1994 (Blazyca and Rapacki 1996). Year-on-year inflation for November 1996 was still too high, at 17.1%. Arguably, inflation is not being reduced quickly enough but, on the other hand, the very gradual deceleration of inflation and the creeping exchange rate peg have made these rises rather stable and predictable.

At the time of the election, the SLD appeared to be largely indebted to urban, state-sector workers. Once in government, the party has resisted making open concessions to workers, excepting a possibly more lax attitude towards tax arrears in the enterprise sector. These tensions between the spending demands of key constituency groups and the awareness of the need for economic stability have pervaded the SLD-PSL coalition. Cautious notice has also been taken of the SLD's tendency towards centralization and strengthening the position of managers in state enterprises epitomized in the revised Law on Commercialization and Privatization of State Enterprises¹⁸ versus then-Privatization Minister Kaczmarek's push to implement the mass privatization plan and several important capital privatizations. This is indicative of the something-for-everybody nature of policymaking under the SLD-PSL government: workers in threatened state-sector industries favor a continued state role in industry, other losers of transition favor higher social spending, but also private entrepreneurs and small-scale businesspeople prefer political stability and perhaps identify with the former *nomenklatura* who are prominent in the business community. The PSL wants to grant all sorts of subsidies to farmers¹⁹, and the SLD has to struggle to balance more redistributionist views (notably those expressed by Leszek Miller while Social Affairs minister) with the pragmatic desire to maintain financial and economic credibility in world markets.

¹⁸ Which was finally passed in the late summer of 1996. This law provides for greater cabinet and Sejm control over privatizations in sensitive and strategic sectors, and places greater emphasis on changing corporate governance structures rather than proceeding with sales and ownership transfers.

¹⁹ One example of the PSL's clout is that in the middle of 1994, a price equalization scheme was implemented. While these programs are found in most industrial economies, it protected Polish farmers by raising the price of food imports to the domestic level, thus eliminating undercutting by more efficient, mostly European producers.

Taking the income and unemployment voting function, let us start with the results for the SLD. The former communists campaigned on a pragmatic rather than ideological basis. In a survey of parties' positions²⁰, the SLD claimed to be willing to cooperate with the PSL, UP and UD, while the last two parties were somewhat more reluctant to cooperate with the former communists. Yet with the actual election results, the SLD-PSL agreement was the "minimum winning coalition", in that it had the maximum preponderance of seats over a majority and the lowest number of partners, thus minimizing future need for pork barreling.

The R square for the SLD is higher than in 1991, and the level of significance is also much better. However, the connection with unemployment is tighter than for income. There is a positive relation with income, but this is outweighed both in terms of coefficient and significance by unemployment. Once again, the SLD vote is higher in regions more seriously affected by job losses. As unemployment increased, SLD support also grew. Despite constant media attacks, in the polling booth the SLD became the legitimate recipient of the votes amongst the most adversely affected by economic transition.

TABLE 5.13
REGRESSION RESULTS FOR 1993 SEJM ELECTIONS: SLD, PSL
SLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.011	0.080	-0.143	0.8868
INCOME	0.355	0.194	1.822	0.0753
UNEMPLOY	0.515	0.132	3.894	0.0003

N = 47. R square: 0.262. Adjusted R square: 0.228. SEE: 0.045. F-ratio (sig): 7.808 (0.0013)

PSL

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.524	0.154	3.397	0.0015
INCOME	-0.916	0.376	-2.436	0.0190
UNEMPLOY	-0.040	0.256	-0.157	0.8759

N = 47. R square: 0.125. Adjusted R square: 0.086. SEE: 0.087. F-ratio (sig): 3.151 (0.0526)

All numbers rounded off. Source: GUS data, Panstwowa Komisja Wyborcza (1993).

²⁰ *Polityka*, 17 September 1993.

Looking at the results for the other coalition partner, the share of votes for the PSL grows in poorer areas. The R square for 1993 is almost identical to that for 1991. The coefficients reveal that the PSL electorate displays a **negative relation to both income and unemployment**. The effect of low incomes is much stronger, in both coefficient and significance, than unemployment. However, low income and unemployment levels are probably more indicative of the agricultural constituency of this party rather than primary causative factors.

Next, consider the results for the parties with the most consistent identification with economic liberalism, UD and KLD. Of the post-Solidarity parties, UD was joined in the Sejm by only BBWR and UP, and was the only one of these to gain a substantial number of seats. The R square is slightly improved from 1991 for UD, but the level of significance of the **positive relationship with income** is fractionally lessened. There is a more distinguishable pattern of **lower support in high unemployment regions**.

TABLE 5.14
REGRESSION RESULTS FOR 1993 SEJM ELECTIONS: UD, KLD
UD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.036	0.066	-0.555	0.5818
INCOME	0.415	0.160	2.593	0.0129
UNEMPLOY	-0.162	0.108	-1.493	0.1495

N = 47. R square: 0.220. Adjusted R square: 0.185. SEE: 0.037. F-ratio (sig): 6.220 (0.0042)

KLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.046	0.029	-1.603	0.1161
INCOME	0.214	0.070	3.050	0.0039
UNEMPLOY	0.013	0.048	0.276	0.7835

N = 47. R square: 0.182. Adjusted R square: 0.144. SEE: 0.016. F-ratio (sig): 4.880 (0.0122)

All numbers rounded off. Source: GUS, Panstwowa Komisja Wyborcza (1993).

The results for the 1991 regression for KLD displayed the greatest explanatory power. For 1993, this is much reduced. This party only received a small proportion of the total vote, and this perhaps helps to explain this poor result. However, the **positive coefficient for income remains statistically significant**. Unemployment rates do not have a strong effect on explaining the vote, but its

positive sign indicates more support in regions with less joblessness, primarily the Gdansk region and large cities.

TABLE 5.15

REGRESSION RESULTS FOR 1993 SEJM ELECTIONS: *OJCZYŻNA**Ojczyzna*

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.195	0.050	3.892	0.0003
INCOME	-0.270	0.122	-2.208	0.0325
UNEMPLOY	-0.197	0.083	-2.372	0.0221

N = 47. R square: 0.155. Adjusted R square: 0.117. SEE: 0.028. F-ratio (sig): 4.035 (0.0246)

All numbers rounded off.

Source: GUS data, Państwowa Komisja Wyborcza (1993).

In the 1993 elections, *Unia Pracy* won 7.3% of the total vote. This party, which attracted the social democratic wing of the 1989 Solidarity coalition, is revealed by the income-unemployment regression to attract more votes in areas of **higher per capita incomes and lower unemployment rates**: Warsaw and the urban centers of western Poland (see Appendix 5.2). Since this time, UP has maintained this average level of support, but with some variation over time. In December 1996, they received approval ratings of 5%²¹, but could receive twice as large a share in the next election.

The final political tendency to consider is the anti-communist right. Over time, the PC, ZChN, and "Solidarity" have become more clearly identified with a conservative social stance (pro-Church, anti-abortion), anti-communism (continuing to push for lustration laws), and a more interventionist economic stand, at least concerning employment policy and pensions. BBWR was identified with a pro-economic reform but socially conservative platform. The *Ojczyzna* coalition continued in the same vein as WAK. As shown in Table 5.15, their share of the vote is proportionately higher in regions with **lower income but higher employment rates**, implying support from the working poor and employees in state enterprises. These are not the best significance levels, but still pass the 95% confidence test for one tail. They also show clearer economic links and a better, if still low, R square

²¹ OBOP poll cited in *Donosy*, 17 December 1996.

than those for WAK in the 1991 election. While a sizable proportion for Christian parties spans socioeconomic groups, we can still discern the impact of these selected economic factors.

In Appendix 5.2, the regression results for the other main parties of the center-right are presented. As shown in the breakdown of the total vote, the 30% of the vote going to this tendency was distributed across at least seven blocs and parties, only two of which are actually represented in the present Sejm. Yet Solidarity, KPN, and *Ojczyzna* all showed strong, high coefficients for lower incomes and lower unemployment. BBWR also demonstrated negative coefficients for unemployment but not income, with the result for unemployment significant to an appreciable level. This regression does not fully explain voting preferences, but the patterns do point towards the characteristics of voters who support the center-right.

5.4 ELECTIONS AND STRUCTURAL FACTORS

Because of the number of candidates running in each race and the disparities in campaign issues, the two variables of unemployment and per capita income cannot explain all of the variation in voting. The introduction of other variables to represent the structural changes underway in the Polish economy will add to our understanding of economic voting. As before, the dependent variable is the percentage of vote for each candidate, measured in each province. Taking data from the *Rocznik Statystyczny* and the *Biuletyn Statystyczny*, the following independent variables were calculated for each of 49 *województwa*.

INCOME	Average per capita monthly income, given as an average for the year.
UNEMPLOY	Unemployment rate (as percentage of the workforce) for the month of the election ²² .
URBAN	Percentage of the population living in towns and cities.

²² Along the lines of Hibbs (1987), variables which reflect the change in real income and the change in unemployment from one year previously may also be important for voting patterns. Hibbs argues that it is not the absolute level of unemployment, for instance, which is important but rather the scale and direction of change prior to the election. This technique does appear to make some positive contribution to the analysis of the Polish data, but I have not included these results in the interests of restraining the length of the chapter.

FARMING	Of those employed, the percentage earning a living from agriculture, including private farmers.
TRADE	Percentage of the workforce employed in the trade sector.

A similar method has been used in Parysek *et al.* (1991) and Gibson and Cielecka (1995), but each of these only examines one election using a different range of variables and assumptions. The Parysek paper presents regression results using varying combinations of the strongest variables, while the Gibson and Cielecka paper uses eleven independent variables in seven categories. Parysek *et al.* (1991) uses data on farming, urban versus rural population, the ratio of women to men, the percentage of working age and post-working age in the population, the percentage of people with secondary or higher education versus vocational training, and the ratio of state-owned to private farmland. Income and unemployment are not included; the authors are geographers and have different interests than this paper.

Gibson and Cielecka (1995, p. 775) use combinations of variables, described as:

- 1) percentage unemployed in September 1993;
- 2) weighted percent change in industrial and construction sales
- 3) weighted percent change in the number of state enterprises
- 4a) percentage of employment on state farms
- 4b) percentage of employment on private farms
- 4c) percentage of non-farm private employment
- 5) percentage of population receiving social benefits
- 6a) percentage of population aged 20-29
- 6b) percentage of population aged 65 and over
- 7) percentage of working population with higher education

The main concerns of Gibson and Cielecka for elections are the effects of privatization, growth, and unemployment on support for liberal parties. In particular, their assumptions are based on the Hayekian idea that growth of the private sector (and, implicitly, the middle class) will increase support for pro-reform parties. Another key idea which can be tested by this regression is the link between the number of social benefit dependence and support for the redistributive platforms of the SLD and PSL.

I also tried using variables based on the percentage of population receiving pensions and receiving social benefits, but these turned out to be insignificant in nearly every case and election. For social benefits, the exception was for Bartoszcze in 1990 (coefficient: 0.297), PL in 1991 (0.392), and SLD in the 1993 election

(0.183), all of which were significant at the 0.10 level. The only significant result for percentage of benefit recipients for Gibson and Cielecka was a positive estimate of 0.59 for the SLD in 1993.

Gibson and Cielecka used the percentage of population over 65, while I used the percentage of people receiving pensions. There is a slightly different emphasis in using the figure on entitlements, and it is a better data set in terms of economic interests for several reasons. First, the widening of pensions to early retirees has pushed down the average pensioner's age. Also given the lower retirement ages in Poland, people over 65 probably includes the poorer pensioners, but is not inclusive of the potential interest group which could be mobilized in favor of this form of spending.

In the paper by Gibson and Cielecka on the 1993 election, they found that the size of the over-65 population had a positive, significant relation to SLD and BBWR election results. In my own analyses, the number of pensioners had a positive relationship with SLD vote in 1991 ($b = 0.475$ at 0.10 significance), *Ojczyzna* in 1991 ($b=0.168$ at 0.02 significance). In my opinion, the variables I have chosen provide greater frequency of both positive and negative results. I do not feel it is worth including these extra two variables given their limited explanatory power and the limited number of cases.

One good idea that Gibson and Cielecka have is that they try to include a variable estimating state sector employment. In the preceding discussion, I have made extrapolations about the likely positions of workers in state-owned industry. However, I do not think that their use of a weighted number of state enterprises is necessarily representative of the number of employees. First of all, in 1989 and 1990, many state enterprises hived off their profitable and unprofitable sections, split into several units, or set up new activities. The number of state enterprises may rise but the absolute level of employment remain the same. Second, from 1991 labor shedding in SOEs picked up steam. Even before including privatizations, the total number of enterprises in 1991-1993 could have remained the same but the number of employees have fallen drastically. They also calculated non-farm state employment by subtracting their estimates of employment on state farms from total public employment. This is probably as close as is possible to the actual number, but I still

find it too imprecise. I have also found it problematic to compile a consistent indicator of state sector employment. This is will have to be pursued independently of this present project.

Finally, another interesting idea in the Gibson and Cielecka paper is to take the coefficients to calculate “what-if” propositions about the effect of changing variables on electoral support is an interesting one. However, they forecast for uniformly higher growth, or uniformly lower state sector employment. In contrast, my concern is with distributional effects, and regional disparities are one of the most important issues in the political economy of transition.

In the research for this chapter, I also tried variables for the activity rate (percentage of population employed) and the vacancy rate, but these were found not to be consistently significant factors. As with the data for recipients of pensions and social benefits, neither of these variables produced significant effects, nor did they improve the explanatory power of the regressions.

The five selected variables were chosen to be complementary. The income and unemployment variables are the same as in the preceding model. I checked for correlation; the strongest relations were between income and farming (-0.599) and urban residence and income (0.649). This latter correlation may help explain the regression for *Unia Pracy* presented in the preceding section. As we saw in Chapter 3, agricultural households have lower average per capita income than all but the unemployed. Higher incomes in urban regions reflects not only the growth of the private sector in cities, but also the concentration of professional jobs and people with higher education. These relations show that there are underlying, identifiable factors at work in the unequal distribution of fundamental social distribution during the transition.

Because of the amount of information, the regression results for the top candidates and parties will be presented sequentially. Overall, the introduction of three independent variables increases the R square, with many substantial gains. The prevalence of significant results suggests that the improved fit of the regression is not simple an artifact of adding on more variables. Moreover, the vast majority of the findings in the first section are shown to be robust, and stand up to the introduction of more variables.

The 1990 presidential race

Starting with Walesa (Table 5.16), the overall explanatory power of the model is improved, but the most interesting details come from the individual variables. Again, we can see that there is a strong inverse relationship between unemployment and support for Walesa, with low income also significant with a lower coefficient. Support for Walesa tends to be in areas with more jobs, but these areas are not predominantly rural or urban.

TABLE 5.16
REGRESSION RESULTS FOR WALESA IN FIRST ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	1.283	0.305	4.200	0.000
INCOME	-0.442	0.206	-2.139	0.038
UNEMPLOY	-1.588	0.520	-3.052	0.004
URBAN	0.178	0.145	1.232	0.225
FARMING	-0.184	0.217	-0.849	0.401
TRADE	-0.442	0.012	-3.418	0.001

N = 49. R square: 0.408. Adjusted R square: 0.339. SEE: 0.071. F-ratio (sig): 5.922 (0.000)
All numbers rounded off to third decimal place.
Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

The income and unemployment variables retain the same sign as in the shorter regression, and here they are both credible estimators. Furthermore, there is greater approval of Walesa in urban areas, and lower support amongst farmers, although this figure is weaker. The trade sector is included in this regression as a representative of the growing private sector. Both the rapid emergence of private trade and the “small privatization” of retail outlets contributed to the rise in private economic activity, and especially in small, owner-operated businesses. Here we can see that Walesa received fewer votes where the retail and trade sector employs more people. Given the trends of lower unemployment, lower incomes and support in larger cities, it is reasonable to conclude that Walesa attracted relatively strong support from state sector industrial workers²³.

²³ Bell and Mickiewicz (1997) discuss how wage restraint enabled state sector firms to delay shedding labor, so that the fall in state sector employment lagged the fall in output in 1990-1992. Therefore, state firms in this period can be characterized as retaining jobs but at low wages.

For Tyminski (Table 5.17), the persistent indication is that much of his vote can be accounted for by high unemployment levels. There is also a substantial relation with higher income levels. This is evidently contradictory, but as stated earlier, there may well be factors at work which this regression does not capture. The coefficient for urban population is negative and significant, but the farming variable is not significant. This suggests that unemployed people in smaller towns and villages, where other studies indicate that there is less job creation and fewer employment alternatives, provided a level of discontent with reform and approval for Tyminski's radical (if somewhat illogical) populism.

TABLE 5.17

REGRESSION RESULTS FOR TYMINSKI IN FIRST ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.547	0.208	-2.626	0.012
INCOME	0.580	0.141	4.113	0.000
UNEMPLOY	1.862	0.355	5.247	0.000
URBAN	-0.178	0.099	-1.798	0.079
FARMING	0.107	0.145	0.724	0.473
TRADE	0.017	0.009	1.965	0.056

N = 49. R square: 0.487. Adjusted R square: 0.428. SEE: 0.048. F-ratio: 8.170 (0.000)

All numbers rounded off to third decimal place.

Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

TABLE 5.18

REGRESSION RESULTS FOR MAZOWIECKI IN FIRST ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.135	0.119	1.136	0.262
INCOME	0.018	0.080	0.223	0.824
UNEMPLOY	-0.521	0.202	-2.572	0.014
URBAN	-0.083	0.056	-1.472	0.148
FARMING	-0.268	0.084	-3.180	0.003
TRADE	0.021	0.005	4.158	0.000

N = 49. R square: 0.855. Adjusted R square: 0.838. SEE: 0.028. F-ratio (sig): 50.782 (0.000)

All numbers rounded off to third decimal place.

Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

It is possible that Tyminski gained support from low income voters on the basis of his populist rhetoric, and also from the upper end of the income distribution through a sort of naive capitalistic or libertarian ideology which identified with the

man who rose from obscurity. To test this idea, a second income variable of per capita income squared was introduced, but the coefficients did not reveal a quadratic relation as might be expected.

The regression for Mazowiecki gave the best R square; 85.5% of the variation in the percentage of the vote for the incumbent prime minister can be explained by these five independent variables (Table 5.18). It is interesting that the most significant individual variables have a negative impact on the vote. A rise in the provincial unemployment rate of 1% diminished Mazowiecki's share of the vote by 0.5%. There was also a trend of negative voting by farmers. Very few farmers supported Mazowiecki, and this is demonstrated through a fall in votes for Mazowiecki in areas which are more dependent upon farming. Another curious point is that urban residence and higher incomes are much weaker factors than public opinion data suggests. The coefficient for per capita income is insignificant, and that for urban concentration is negative when a positive sign is expected. Overall, the regression shows that voting against Mazowiecki was an even stronger factor than positive support from groups which are flourishing under transition. Discontent with the costs of reform are expressed through voting for any candidate but Mazowiecki.

It is no surprise that the single significant factor in explaining the vote for Bartoszcze lies in the weight of agriculture in total employment. As stated before, the agrarian lobby entered the transition as probably the only interest group with a strong sense of historic self-identification. The dominance of farming as a livelihood is therefore consistent with what we know about the electorate of peasant parties in Poland.

TABLE 5.19
REGRESSION RESULTS FOR BARTOSZCZE IN FIRST ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.120	0.116	1.034	0.307
INCOME	-0.090	0.079	-1.140	0.261
UNEMPLOY	-0.269	0.198	-1.357	0.182
URBAN	-0.005	0.055	-0.088	0.931
FARMING	0.250	0.083	3.024	0.004
TRADE	-9.904E-04	0.005	-0.201	0.842

N = 49. R square: 0.709. Adjusted R square: 0.675. SEE: 0.027. F-ratio (sig): 20.954 (0.000)
All numbers rounded off to third decimal place.

Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

The extended regression for Cimoszewicz presented in Table 5.20 reinforces the initial conclusion that the key explanatory variable was higher unemployment rates. The unemployment variable is the only one which has a statistically significant coefficient; higher jobless rates increased the share of the vote given to the SdRP candidate.

TABLE 5.20

REGRESSION RESULTS FOR CIMOSZEWICZ IN FIRST ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.044	0.137	-0.325	0.747
INCOME	-0.693	0.092	-0.749	0.458
UNEMPLOY	0.545	0.233	2.339	0.024
URBAN	0.095	0.065	1.458	0.152
FARMING	0.132	0.097	1.362	0.180
TRADE	-0.086	0.006	1.477	0.147

N = 49. R square: 0.2527. Adjusted R square: 0.1658. SEE: 0.032. F-ratio: 2.908 (0.0239)

All numbers rounded off to third decimal place.

Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

As in the previous section, we can extend this analysis to the election results from the second and final round of voting, in which Walesa was victorious. This regression is interesting because of the number of significant variables, as well as the R square of slightly more than 50%. In Table 5.21, the only variable which does not have good explanatory power is that for urban residence. Therefore, we can conclude that these Walesa supporters were located in rural and urban areas alike.

TABLE 5.21

REGRESSION RESULTS FOR WALESA IN SECOND ROUND, 1990

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	1.901	0.293	6.486	0.000
INCOME	-0.503	0.198	-2.537	0.015
UNEMPLOY	-2.392	0.499	-4.792	0.000
URBAN	0.074	0.139	0.536	0.595
FARMING	-0.573	0.208	-2.757	0.009
TRADE	-0.043	0.012	-3.466	0.001

N = 49. R square: 0.502. Adjusted R square: 0.444. SEE: 0.068. F-ratio: 8.674 (0.000)

All numbers rounded off to third decimal place.

Sources: Parysek *et al.*, 1991; Panstwowa Komisja Wyborcza (1990); GUS.

Starting with the unemployment and income figures, we can see that unemployment is again the decisive factor, the coefficient is -2.392 with significance of better than 1%. Areas of high unemployment gave their votes to *Tyminski* and not Walesa, as shown by the negative coefficient for Walesa. Lower income levels are also drew votes away from Walesa. Farming, too, shows a greater propensity to oppose Walesa. With all of these negative relations, what can we conclude about Walesa's electorate? First of all, remember that unemployment was only about 6% at the time of the election. Although many more were threatened with unemployment in the future, it is probable that state sector workers supported Walesa in the belief that he would further their interests. As discussed in the section about the regional diversity of the vote for Walesa, it is shown that his electorate crossed socioeconomic definitions. While rural areas were less likely to vote for Walesa, a sizable proportion still did. Walesa also gained support from urban areas and higher income households. But, perhaps the most important conclusion is that we can observe protest voting from the unemployed, low income households, and farmers.

The 1995 presidential election

Information on both the first and second rounds of the 1995 presidential vote are available for analysis. The regressions run on the voting data in the first round have particular potential to improve the test of economic voting because of the diversity of candidates. On the other hand, the low vote shares for several of the candidates may hinder the explanatory power of the model.

Appendix 5.3 presents the results of the extended regressions for the top eight candidates in the election. In comparison with the regressions using income and unemployment, this set of results provides much stronger explanatory power. As shown in Table 5.3, Walesa and Kwasniewski were the only candidates to receive more than 10% of the vote, with Kuron in third place.

The regional breakdown of support for Kwasniewski shows a surprisingly lower than normal relation to unemployment. While the sign remains positive, the significance level is quite weak. The negative relation with income is much stronger in both terms, suggesting that Kwasniewski was successful in attracting more of the

“have-nots” from other parties, particularly on the right. These votes come more from urban than from rural areas, and there are indications of a negative link with the size of the trade sector in total employment, although these three figures are not highly reliable.

While the R square for Walesa’s preformance in the first round is the lowest of the examined candidates, the coefficients reveal the same pattern as in prior elections. The coefficients for income remains negative and unemployment positive, indicating greater support in areas with lower incomes but less unemployment. Again, the coefficients for urban residence and farming employment are not significant, indicating that support for Walesa crossed these social categories.

As mentioned earlier in this chapter, there was much confusion surrounding other candidates to represent the right and center-right. In the end, central bank president Hanna Gronkiewicz-Waltz, Jan Olszewski, and Janusz Korwin-Mikke ran with the backing of different segments of this end of the political spectrum. None of these candidates did very well in the election. Since it was apparent at the time of the election that none of these three were likely to win, they may have lost support through strategic voting.

The overall explanatory power of this model for the political right varied by candidate. Korwin-Mikke achieved the best R square, with more than 72% of variation in his vote explainable through these independent variables. The regression for Olszewski attained 0.6433, and for Gronkiewicz-Waltz 0.4973 -- just under half of variation in voting patterns explained. Despite the low shares of the total vote, these figures are better than those attained by Walesa.

In terms of the signs and significance of the variables’ coefficients, all three show a negative relation with unemployment but with low coefficients, suggesting only modestly higher levels of support where there is less joblessness. Furthermore, the significance levels for these right-wing candidates all have a significance level at 0.06 or better, indicating a strong link in voting patterns. In terms of income, Korwin-Mikke attracts more low-income votes, while the others fare better in higher income areas. Olszewski and Korwin Mikke have positive coefficients for farming with quite good significance levels, which indicates that they may have attracted some of the rural, protectionist vote away from Pawlak and Walesa in this round. All three

candidates showed stronger support in areas with larger trade sectors, and Olszewski and Korwin Mikke also fared better in rural regions. The constituencies for Olszewski and Korwin-Mikke appear more similar, which suggests that Gronkiewicz-Waltz can be taken as an outlier. In this light, it makes it reasonable that it would make sense to join the employed, lower income electorate and the conservative, rural vote into one grouping.

Moving into the political center ground, the UW candidate in the election, Jacek Kuron, did not manage to capitalize on his considerable popularity, as described earlier. However, the R square for his first round performance is particularly strong, at 0.8322. As in earlier elections, there is a strong, tendency for farmers to reject the UW candidate. While there are positive links with unemployment and trade, and a link with lower income -- which is logical considering Kuron's position on the left wing of the party. However, the negative relation to urbanization is inconsistent with earlier results. Still, the best result for Kuron is the negative link with farmers, which reinforces earlier outcomes.

Pawlak fared poorly in this election, although overall voting patterns achieve not only a strong R square (0.7472), but also a significant and relatively sizable relation to regional dependence on farming employment. Again, unemployment levels do not provide much information on voting patterns. The negative link to trade fits in with understanding of Pawlak's policy preferences, although the positive relation to urban residence suggests that the PSL's candidate continued to attract a proportion of support from developed areas. However, as agrarian issues are at the core of the PSL's policy preferences, the strong showing of this variable is a good result.

Finally, Zielinski ran as an independent candidate. A respected jurist with historical connections to the communist regime, he currently serves as a government minister. The overall performance of the model for Zielinski's share of the vote is good, with an R square of 0.7897. Like SLD candidates, support increased with lower per capita incomes and higher unemployment levels. The strongest connection came from the negative relation with farming employment, with the link to lower importance of the trade sector in employment the next best performer.

Województwo level voting returns are also available for the second round of the 1995 presidential election. Above, we saw how unemployment had a much

stronger effect on voting than did income. Table 5.22 below presents the results of a regression with the same five independent variables: income, unemployment, percentage of urban dwellers, percentage of employment in farming, and the trade sector's share in total employment.

TABLE 5.22

REGRESSION RESULTS FOR KWASNIEWSKI IN SECOND ROUND, 1995

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.492	0.386	1.275	0.209
INCOME	-0.067	0.308	-0.219	0.828
UNEMPLOY	1.370	0.336	4.083	0.000
URBAN	0.267	0.260	1.030	0.309
FARMING	-0.150	0.303	-0.497	0.622
TRADE	-0.568	0.433	-1.309	0.197

N = 49. R square: 0.343. Adjusted R square: 0.267. SEE: 0.102. F-ratio: 4.497 (0.002)

All numbers rounded off to third decimal place.

Source: *Gazeta Wyborcza*, 21 November 1995, p. 2; GUS.

Overall, the results are not as significant for the second round of the 1995 presidential election. In fact, the only significant result for the independent variables is the strong relation between support for Kwasniewski and unemployment. Income levels are largely unrelated to voting patterns, as is the share of *województwo* employment in agriculture. Patterns of greater support for Walesa from amongst regions with more developed trade sectors and higher levels of support for Kwasniewski in urban areas are evident but not sufficiently significant in statistical terms. Therefore, we can conclude that in the 1995 elections, unemployment continued to be the most important structural factor influencing political choice.

1991 Sejm elections

As with the presidential elections, the expanded regressions allow a more detailed explanation of economic voting behavior. To start, voting for UD in 1991 shows a very strong inverse relation with the proportion of those employed in farming. There is also, as expected, a identifiable trend towards UD support in low unemployment areas which tend to be the capital and regional urban centers.

TABLE 5.23
REGRESSION RESULTS FOR 1991 ELECTION: UD, KLD

However, these expected results and the high R square must be tempered by the wrong sign on the coefficients for income, percentage of urban residents, and percentage of total employment in trade. When only income is regressed against the UD's share of the vote, income attains a significant coefficient of 1.6. For this particular regression, the results are not robust.

Next, we can consider the KLD, which has had a more consistently liberal stance, and which does not have the left-right economic division seen in the UD. While the R square is lower, the coefficients for KLD are of the expected sign even if the significance levels are not impressive. Again, there are identifiable regional preferences for KLD, being particularly strong in Gdansk and Warsaw Capital, with good showing also in more prosperous western cities such as Poznan and Wroclaw, as well as the highly urbanized city of Lodz. However, the KLD also managed to get 7% of the vote in Elblag and 5.8% in Suwalki, probably the *województwo* with the worst problem of underdevelopment.

TABLE 5.24
REGRESSION RESULTS FOR 1991 ELECTION: SLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.169	0.156	-1.085	0.2840
INCOME	-0.439	0.653	-0.673	0.5048
UNEMPLOY	0.320	0.128	2.502	0.0163
URBAN	0.193	0.084	2.290	0.0271
FARMING	0.311	0.129	2.417	0.0201
TRADE	1.083	0.604	1.792	0.0803

N = 48. R square: 0.271. Adjusted R square: 0.186. SEE: 0.035. F-ratio (sig): 3.127 (0.0173)
All numbers rounded off. Source: GUS, Panstwowa Komisja Wyborcza (1991).

Table 5.24 presents the results for the SLD. Four of the five independent variables are significant to 0.10, and two to 0.02 or below. Yet once more, unemployment is the most important factor in explaining the impact of the economy on voting. As employment is positively linked to support for liberal parties, higher unemployment remains the dominant factor in the extended regression for SLD

support in the 1991 election. The second most relevant factor was the positive figure from regions where more people depend upon farming. While farming is one of the most core determinants for support for the PSL, it is worth noting that agricultural areas also gave substantial shares of the vote to the ex-communists.

The SLD also appealed to people in larger cities. In 1991, there were demonstrations and strikes in the education, health, and transportation sectors. We can assume that a proportion of this negative reaction against the costs of reform was transferred into votes for the SLD.

TABLE 5.25
REGRESSION RESULTS FOR 1991 ELECTION: PSL

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.181	0.176	-1.028	0.3102
INCOME	1.284	0.730	1.760	0.0861
UNEMPLOY	0.193	0.143	1.351	0.1843
URBAN	-0.131	0.095	-1.380	0.1753
FARMING	0.246	0.145	1.689	0.0990
TRADE	0.408	0.689	0.591	0.5576

R square: 0.496. Adjusted R square: 0.433. SEE: 0.039. F-ratio (sig): 7.881 (0.000)

All numbers rounded off to third or fourth digit.

Source: GUS, Panstwowa Komisja Wyborcza (1991).

The PSL also worked to widen their electorate, and gained a large share of the votes across the country, excepting Warsaw, Lodz, Katowice, Bialystok, and Gdansk. The regression reinforces public opinion findings that the PSL was able to attract votes from voters outside peasant farming. What is not expected is that the relation with incomes is positive and has a higher and more significant coefficient than farming. The unemployment coefficient is positive and for urban residence is negative.

While the PSL received 8.7% of the total vote, the other agrarian party, the PL, received 5.5%. Taking the same five independent variables, the regression for the PL attained an R square of 0.6485 and an adjusted R square of 0.6035. The coefficient for farming, urban residence, and employment in trade were all of the expected signs, but none had particularly impressive significance levels. The sign for income is positive, but not very strong. The figures for unemployment were the strongest, with a coefficient of -2.0 and significance level of 0.05.

Next, let us consider the other parties of the post-Solidarity and Christian Democratic right. Of these, WAK received the highest share of votes, closely followed by POC; both received close to 8.7%. The trade union Solidarity received 5.1%, and the independent KPN, which runs on a strongly nationalistic and protectionist stance, received 7.5%. It is important to mention that the KPN has founded its own trade union, *Kontra*, which openly competes for the "traditional" Solidarity electorate of workers.

TABLE 5.26

REGRESSION RESULTS FOR 1991 ELECTION: WAK, NSZZ "S", POC, KPN

	WAK		NSZZ "S"		POC		KPN	
<i>R square</i>	0.2202		0.2236		0.1260		0.1130	
<i>Adj R square</i>	0.1274		0.1187		.02190		0.0074	
<i>Variables</i>	B	sig t	B	sig t	B	sig t	B	sig t
CONSTANT	.027	.906	.211	.037	.213	.139	.273	.036
INCOME	-1.06	.263	-.069	.866	-.134	.822	-.176	.740
UNEMPLOY	-.065	.722	.012	.884	-.250	.037	-.172	.102
URBAN	.326	.010	-.043	.417	-.033	.672	-.047	.494
FARMING	.313	.095	-.197	.018	-.121	.305	-.179	.092
TRADE	-.328	.705	-.556	.143	-.586	.291	-.629	.204

N = 48. All numbers rounded off to third or fourth digit.

Source: GUS, Państwowa Komisja Wyborcza (1991).

Socially conservative voting patterns cannot be fully described by these economic indicators, as is apparent from the table. The results are not uniform, but there are similarities between WAK and Solidarity, and between POC and KPN (Table 5.25). The overall fit is better for WAK and Solidarity, but there are more parallels between POC and KPN. For example, these latter two parties have negative coefficients for all variables, with results closer to meaningful levels of significance for farming and unemployment. Income had much less of an effect. The more nationalist platforms of KPN and the more moderate POC had more resonance with unemployed voters who would not vote for the former communists. The performance of WAK in cities and farming regions alike fits in with the better showing of the Catholic coalition in eastern and southern regions, receiving more than one-third of the vote in Ostroleckie and Łomżyńskie *województwa*. For all, there was a relationship with lower income levels, but none at a highly significant figure.

1993 Sejm Elections

In this, the final application of the extended regression of structural indicators, we would hope to find more definite signs of closer dependence of election outcomes on economic factors. While the democratic system was only in its fourth year of existence in Poland, by the 1993 election there was a great deal of shifting and redefinition of platforms and targeted constituencies. Unemployment had just passed its highest level during transition. While the economy had experienced one year of expansion, the effects of recovery had not spread into higher real wages or sizable growth in employment. 1992 had been a poor year for agriculture. In the political scene, the Suchocka government had fallen because of Solidarity's role in enabling the vote of no confidence to succeed.

When the votes were counted, the SLD topped the poll with more than one-fifth of all valid votes. As for the regression, the 1993 data provides a better fit with more than 44% of variation explainable by these variables. All of the coefficients retain the same signs as in the 1991 estimates. The positive and significant relation unemployment remains, as does the greater level of support from urban areas. Somewhat weaker but still predictive are the associations with lower income levels and farming. There is more support where trade and retail employ more people. However, the most important finding is that unemployment is still the most important factor in explaining economically-motivated electoral support for the SLD.

TABLE 5.27
REGRESSION RESULTS FOR 1993 ELECTION: SLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.0183	0.1597	-0.115	0.9092
INCOME	-0.2281	0.2558	-0.892	0.3778
UNEMPLOY	0.4390	0.1246	3.523	0.0011
URBAN	0.2750	0.1206	2.281	0.0278
FARMING	0.1443	0.1428	1.011	0.3181
TRADE	0.2647	0.4958	0.534	0.5963

N = R square: 0.443. Adjusted R square: 0.375. SEE: 0.041. F-ratio (sig): 6.514 (0.002)

All numbers rounded off to third or fourth digit.

Source: GUS, Panstwowa Komisja Wyborcza (1993).

The second most successful party in the 1993 Sejm elections was the PSL, which won a total of 15.4% of the national poll. The most significant factor for the PSL is support from farmers, having a lower coefficient than income but a better significance level. Income has the opposite sign to the related coefficient in the simpler regression, an effect similar to that seen for UD in 1991. In this election, votes for the PSL increase with the regional unemployment rate, which is consistent with what shall be discussed in the next section on the socioeconomic bases of party preferences. The trade sector and to a lesser extent the degree of urbanization were less important factors than income, farming and unemployment. In the 1993 election, the five variable regression explains more than half of the vote, more than in 1991.

TABLE 5.28
REGRESSION RESULTS FOR 1993 ELECTION: PSL

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.204	0.242	-0.843	0.4039
INCOME	0.739	0.387	1.907	0.0635
UNEMPLOY	0.284	0.189	1.505	0.1400
URBAN	-0.171	0.182	-0.935	0.3552
FARMING	0.454	0.216	2.100	0.0419
TRADE	0.198	0.751	0.264	0.7933

R square: 0.595. Adjusted R square: 0.545. SEE: 0.061. F-ratio (sig): 12.029 (0.000)

All numbers rounded off to three or four digits.

Source: GUS, Panstwowa Komisja Wyborcza (1993).

UD's performance in the 1993 election was disappointing to international observers, because UD embodied the commitment to market reform and accession to European and international organizations, as well as a break with the communist past. There was considerably less enthusiasm for radical reform in Poland in 1993 than in 1989. UD received only 10% of the national vote, and KLD received less than 5%. The 1993 R square for UD is fractionally lower than that for 1991, but there are more significant individual results. For instance, there is an extremely strong negative relation between higher unemployment and rejection of UD. Conversely, we could say that there is greater support for UD amongst those with jobs. There is also quite a good significance level for the inverse relation with farming. More farmers means fewer votes and more opposition to liberal reform. Once again, the expanded

regression causes the sign for income to be negative where the univariate regression of income on UD votes is positive. The trade variable is positive here, and we would expect that regions with a more developed private service sector would support reforms. The results for KLD are weaker overall for 1993, probably due to the lower level of support for the party.

TABLE 5.29
REGRESSION RESULTS FOR 1993 ELECTION: UD, KLD

UD			KLD	
<i>R square</i>	0.6474		.4093	
<i>Adj R square</i>	0.6043		.3372	
<i>Variables</i>	<i>B</i>	<i>sig t</i>	<i>B</i>	<i>sig t</i>
CONSTANT	.236	.0250	-1.97E-05	.9997
INCOME	-.231	.1634	.014	.8758
UNEMPLOY	-.290	.0007	-.021	.6326
URBAN	.022	.7713	.027	.5234
FARMING	-.174	.0618	-.012	.8152
TRADE	.194	.5420	.161	.3631

All numbers rounded off to three or four digits.
Source: GUS, Panstwowa Komisja Wyborcza (1993).

An interesting contrast with UD is the economic profile of votes for Unia Pracy. This party split off from the left wing of Solidarity, so while it is a social democratic party, it is opposed to the former communists and unwilling to align with the SLD. The results are not very strong; the R square is 0.1831 and the only coefficient which has significance is unemployment; UP attracted support from areas of lower unemployment (coefficient of -.142 with significance at 0.0199). Like UD, UP tends to attract votes from urban intellectuals as well as workers and a section of the jobless, but it appears to be a more elite party.

Finally, let us consider the profile of the center-right parties. Of these, the Christian electoral coalition *Ojczyzna* brought together most of the same groupings which had competed under the WAK banner in 1991. *Ojczyzna* received 6.4% of the total vote, not enough to give them representative in the Sejm. KPN received 5.8% nationally, entitling it to 22 seats. The Walesa-led electoral coalition BBWR²⁴ (Non-Party Bloc in Favor of Reforms) won 5.4% of the vote, just over the threshold and enough to gain 16 seats. Solidarity, *Porozumienie Centrum*, and *Unia Polityki*

²⁴ A not unintentional allusion to Pilsudski's organization with the same abbreviation.

Realnej all received less than 5% and thus its voters remain unrepresented in parliament. These parties are not identical, but share enough similarities to allow fairly regular cooperation in parliament and failed attempts to find a common candidate for the 1995 presidential election.

TABLE 5.30

REGRESSION RESULTS FOR 1993 ELECTION: *Ojczyzna*, KPN, Solidarity

	<i>Ojczyzna</i>		<i>KPN</i>		<i>Solidarity</i>	
<i>R square</i>	0.2202		0.3280		0.1280	
<i>Adj R square</i>	0.1274		0.2460		0.0216	
<i>Variables</i>	<i>B</i>	<i>sig t</i>	<i>B</i>	<i>sig t</i>	<i>B</i>	<i>sig t</i>
CONSTANT	.251	.0298	.312	.0001	.227	.0241
INCOME	-.143	.4285	-.116	.3272	-.092	.5568
UNEMPLOY	-.187	.0381	-.173	.0039	-.146	.0597
URBAN	-.060	.4780	-.041	.4597	-.035	.6326
FARMING	-.086	.3958	-.225	.0013	-.134	.1285
TRADE	-.338	.3343	-.736	.0023	-.448	.1433

All numbers rounded off to three or four digits.

Source: GUS, Panstwowa Komisja Wyborcza (1993).

Once again, is the center-right based on a common constituency with interests beyond religious conservatism and anti-communism? First, let us compare the regression results for *Ojczyzna* and KPN. KPN's electorate is more identifiable than that of *Ojczyzna*, but they share greater support in areas of higher employment but (to a lesser extent) lower income. Both have an increased relation to rural areas and farmers, as well as less support from the new private sector, represented here by figures for the trade and retail sector. All of these trends are clearer for KPN. We can extrapolate that their nationalistic, protectionist, and interventionist policies have found an attentive audience amongst industrial workers, particularly those in smaller towns and cities, and also amongst farmers. A look at the *województwo* data shows that there is more support for KPN in southern and southwestern Poland. In contrast, *Ojczyzna* received a fairly consistent 4%-6% across the country, with exceptionally good results on Nowy Sacz and Rzeszow in the south. These areas tend to be more resistant to post-communist parties, more traditional, and with smaller farms. The area is not as poor as Suwalki in the northeast, but is less developed than the west, for instance. Of the center-right parties, PC demonstrated the least consistent results. Despite a low R square (0.15), the results for PC show a negative relation to income

and unemployment, and a positive (and significant within 3.6%) relation to urbanization.

The results for BBWR demonstrate a degree of fit between the three preceding parties (Table 5.31). The R square is lower than that for KPN and Ojczyzna, but higher than that for "Solidarity". The coefficients are negative for income and unemployment, with income gaining the negative sign not demonstrated in the income-unemployment regression. The variable for unemployment is the strongest, with the best results for coefficient and significance. Neither the employment nor urbanization variables provide much evidence, suggesting a cross-group electorate for this party with the basic characteristics of Walesa's support base.

TABLE 5.31
REGRESSION RESULTS FOR 1993 ELECTION: BBWR

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.0849	0.0631	1.347	0.1852
INCOME	-0.3401	0.0988	-0.344	0.7324
UNEMPLOY	-0.1187	0.0515	-2.305	0.0261
URBAN	0.0039	0.0425	0.092	0.9269
FARMING	-0.0198	0.0552	-0.359	0.7213
TRADE	0.0119	0.2030	0.059	0.9536

R square: 0.1497. Adjusted R square: 0.0508. SEE: 0.0168. F-ratio (sig): 1.514 (0.2056)

All numbers rounded off to three or four digits.

Source: GUS, Państwowa Komisja Wyborcza (1993).

Once again, common patterns emerge in the variation of electoral support for center-right parties. This suggests that despite some quite different preferences in economic policy, there are shared characteristics of their electorate which makes cooperation in an electoral coalition or united party a sensible option.

Possible improvements to the model

One idea is to use quarterly data on real incomes and unemployment by *województwo*. This would allow the creation of lagged variables, which could permit a weight of retrospective voting effects. One very interesting question is how heavily past experience is weighted in people's rational calculations during the rapidly changing transition period. Alternatively, there is data available for changes in income and unemployment for the year prior to the election.

5.5 SOCIOECONOMIC VOTING PATTERNS

So far in this chapter, we have thought about how regional data can help to shed light on the connection between economic performance and structural factors and voting behavior. Even from the first year of transition, there has been an identifiable variation in political preferences according to regional levels of income, agricultural employment, urbanization, and employment in the trade and retail sector. The most significant economic factor is undoubtedly unemployment. Areas which have borne greater costs of transition have used their vote to oppose candidates identified with radical, market-oriented reform, and to support candidates running on a more redistributive or populist platform. Likewise, people in *województwa* less affected by unemployment or falls in real income are more likely to support liberal parties. Furthermore, we can identify interest-based voting amongst peasant farmers. We can decisively conclude that, in contradiction to Kabaj and Kowalik (1995), interest-based voting models along the lines of those used in advanced market economies can be applied fruitfully to Poland.

It is a long-standing tenet of political economy that interest groups will be more sensitive to different economic policies. Phillips curve type analyses argue that trade unions, the poor, and lower skilled groups will tend to be more concerned about unemployment and inflation, and therefore will tend to support the political parties which are seen to emphasize employment policies. Wealthier individuals and those in more secure employment will prefer parties which place a high importance on keeping inflation low, even if at the cost of higher unemployment. These sensitivities have been shown to differ by country: British voters tend to be more sensitive to unemployment, and Americans to inflation (Hibbs 1982a and 1982b, cited in Mueller 1989, p. 288). Presumably, Americans are less sensitive to unemployment because the level is substantially lower on average than European levels.

In Chapter 1, the importance of economic problems was discussed, and it was shown that unemployment and poverty are consistently considered to be highest on this list. In Poland, concern about inflation was high in November 1990, even if the successful stabilization from the hyperinflationary rates of late 1989 meant that it was

no longer the one dominant economic issue. Unemployment was rising towards 10%, and privatization and social security had emerged as important political issues.

Next, public opinion data will be used to investigate whether there are identifiable patterns of socioeconomic support for political parties. Can we distinguish between parties' electorates on the basis of economic status and potential interests?

The 1990 Presidential Elections

The results obtained above for Walesa suggest that his electorate was drawn from across socioeconomic groups. In a poll taken shortly after the first round of the election, CBOS reports that Walesa received between 29% and 54% of the vote from different occupational groups²⁵. Between 29% and 35% of intellectuals, managers, technicians, trade and service sector workers, and farmers voted for Walesa. As the regressions have suggested, a higher proportion of workers supported Walesa, including between 40% and 42% of skilled and unskilled workers and 54% of artisans. More than 40% of "others", notably housewives, pensioners, and students, also chose Walesa.

Even amongst those groups which gave a higher proportion of their vote to Mazowiecki (intellectuals and managers, technicians) or Tyminski (trade and service sector workers), substantial numbers voted for Walesa. Similar patterns are observable for education and income levels.

The 1995 Presidential Elections

The breakdown of voting in the first round of the 1995 election by occupational group reinforces how much this was a race between Walesa and Kwasniewski from the outset. More self-employed and private businesspeople supported Walesa than Kwasniewski, while the unemployed gave the largest share of their vote to Kwasniewski. Kuron received his highest level of support from unemployed people, but this could not outweigh their much greater preference for the

²⁵ CBOS, 1990, "Elektorat na tydzien przed wyborami", Report No. 683/90, (N=1017), November, p. 15.

SLD candidate. Farmers were split between Kwasniewski and Walesa, and it is also worth noting that farmers had the lowest percentage vote for the UD candidate, Kuron. Workers were also divided between the leading candidates, but of these five groups, Olszewski received his highest level of approval from workers. Olszewski ran under the party *Ruch dla Rzeczypospolitej* (Movement for the Republic [of Poland]), and was the leading candidate for the Catholic right, as well as the most openly interventionist in economic policy.

TABLE 5.32

ELECTION PREFERENCES IN THE FIRST ROUND OF 1995 PRESIDENTIAL ELECTION
BY SOCIOECONOMIC GROUP (IN %)

	<i>Kwasniewski</i>	<i>Walesa</i>	<i>Kuron</i>	<i>Olszewski</i>
Workers	35.7	35.2	7.0	8.7
Farmers	30.4	30.6	3.2	6.8
Pensioners	34.2	39.6	7.4	6.3
Unemployed	37.0	28.5	10.7	6.4
Entrepreneurs	28.0	39.5	9.3	6.9

Source: OBOP survey cited in *Gazeta Wyborcza*, 6 November 1995, p. 4.

One interesting observation from the socioeconomic composition of Kwasniewski's electorate in the second round is that he and the SLD are perceived to represent the interests of not only industrial workers and the unemployed but also a considerable proportion of managers and entrepreneurs. The "socialist" professions - blue-collar and budget sector employees, farmers, and the unemployed -- gave a majority to Kwasniewski. Low-skilled or unskilled laborers, budget sector workers, the unemployed, and farmers have incomes which have lagged the overall average. This occupational breakdown can help explain the positive relation with income in the regression for Kwasniewski's vote in the second round; with the exception of farmers, these groups tend to live in cities, which have higher per capita income.

Walesa was able to win a majority of votes from service sector workers, pensioners, entrepreneurs, and housewives, by a margin of 10%, and students, by a very small margin. Service sector workers represent the new private sector, and by definition their vote should be more pro-reform. In the regressions, the variable for employment in trade and retail revealed a positive association with Walesa.

TABLE 5.33
ELECTION PREFERENCES IN THE SECOND ROUND BY OCCUPATION (IN %)

	<i>Kwasniewski</i>	<i>Walesa</i>
Blue collar workers	52.3	47.7
Office workers	53.7	46.3
Service sector workers	49.3	50.7
Farmers	55.5	44.5
Pensioners	45.6	54.4
Entrepreneurs	40.7	59.3
Unemployed	59.5	40.5
Housewives	45.0	55.0
Students	49.2	50.0

Source: OBOP poll cited by *Gazeta Wyborcza*, 20 November 1995, p. 4.

Other private sector interests, notably entrepreneurs, also supported Walesa. Students were split almost evenly between the two candidates, which is interesting because public opinion polls consistently show them to support UD and UW. Events in the autumn of 1996, where students demonstrated and threw eggs at Kwasniewski during his visits to universities in Warsaw and Krakow, may suggest that the swing vote of students has gone back in the other direction.

Of all electoral groups, housewives and pensioners may be the most conservative groups. Both groups gave a slight edge to Walesa, although it is difficult to conclude whether this effect is because of anti-communist and religious attitudes, or Walesa's concessionary attitude towards retirees.

The 1991 Sejm election

Table 5.34 presents details from an INFAS exit poll²⁶. Although vote totals for each party are not provided for comparison with the actual results, the table covers more parties than a CBOS poll taken two weeks before the election²⁷.

The SLD, in this survey, attract proportionally more votes from white collar workers, pensioners and clerical workers than from workers. PSL gets their highest share of votes from farmers, primarily, and also people with lower education levels. These trends appear in weaker form for PL. UD receives moderate to high levels of

²⁶ INFAS data quoted in: "Wyborcza Statystyka", *Gazeta Wyborcza*, 29 November 1993, p. 2-3.

²⁷ CBOS, 1991, "Preferencje wyborcze społeczeństwa na 2 tygodnie przed wyborami", Report No. 801/91, (N=850), October.

support, relative to the average, from all groups except farmers. Their voters are concentrated amongst intellectuals and white collar employees, clerical workers (10% more than SLD) and entrepreneurs. KLD displays similar patterns, but with much lower overall results. POC attracted support from across many groups, reemphasizing the widespread support for Walesa in 1990. WAK, on the other hand, has its electorate concentrated amongst pensioners and people with only elementary education. This is one element which did not appear even in the extended regressions, but is important nonetheless. KPN mobilized workers for their support, again reemphasizing that the anti-communist right finds votes amongst workers with lower incomes.

TABLE 5.34

PARTY PREFERENCES BY SOCIAL AND OCCUPATIONAL GROUP, OCTOBER 1991 (IN %)

	<i>PSL</i>	<i>POC</i>	<i>PL</i>	<i>"S"</i>	<i>KLD</i>	<i>KPN</i>	<i>SLD</i>	<i>WAK</i>	<i>UD</i>
Total official vote	8.7%	8.7%	5.5%	5.1%	7.5%	7.5%	12%	8.7%	12.3%
White collar	3	11	1	3	10	4	13	7	29
Elementary education	14	9	8	7	5	6	5	14	6
Pensioners	6	11	3	7	9	5	11	14	15
Entrepreneurs	5	10	2	5	12	8	8	6	16
Clerical workers	5	11	2	5	9	5	12	8	22
Workers	8	10	4	9	6	12	6	7	9
Farmers	31	5	21	3	2	4	3	9	4

Source: *Gazeta Wyborcza*, 29 November 1991, pp. 2-3.

The 1993 Sejm election

In the run-up to the September 1993 election, CBOS conducted a survey²⁸ of social preferences of political parties. In Table 5.35, the preferences of social and occupational groups is given. The first observation is the underestimation of the percentage of vote for the SLD and PSL, and the overestimation of the proportion of voters who would choose UD and BBWR. There are several possible explanations. There could be a sample bias, or there could be a reluctance to admit voting for the former communists. The other explanation is that there was a swing towards the

²⁸ CBOS, 1993, "Preferencje wyborcze społeczeństwa pod koniec czerwca '93", Report No. 1028/93, July, (N=613), p. 12-13.

SLD and PSL in the last weeks of the campaign. Like the results for the 1995 presidential race, this could be evidence that the median vote is up for grabs.

Nearly every socio-occupational group in this table has divided their support between two adversarial blocs. Managerial and white collar employees take the middle ground, giving the greatest share of votes to UD, then UP and SLD. These groups all have a secular, social democratic orientation, with UP being to the left of UD. The declared policy preferences of UP and SLD are very similar, but the anti-communist stance of the UP has so far prevented any official cooperation.

TABLE 5.35

PARTY PREFERENCES BY SOCIAL AND OCCUPATIONAL GROUP, JULY 1993 (IN %)

	<i>SLD</i>	<i>PSL</i>	<i>UD</i>	<i>UP</i>	<i>Ojczyzna</i>	<i>KPN</i>	<i>BBWR</i>
Total official vote	20.4	15.4	10.6	7.3	6.4	5.8	5.4
CBOS total	9.0	13.0	14.0	4.0	3.0 ^a	7.0	10.0
Managerial, white collar	12	5	27	17	7	0	8
Clerical	8	5	15	14	3	11	9
Technical	16	8	23	0	2	4	0
Skilled workers	11	6	5	2	2	12	16
Unskilled workers	5	11	6	0	4	19	0
Farmers	0	41	8	2	5	7	11
Entrepreneurs	9	13	11	1	1	12	10
Pensioners	13	14	14	3	3	4	12
Students	5	0	45	0	2	0	6
Unemployed	10	9	24	3	4	8	10
Housewives, others	7	6	10	0	5	11	7

a: CBOS gives figures for ZChN in "Preferencje wyborcze w czerwcu '93", Report 1024/93, July, p. 14. Source: CBOS, "Preferencje wyborcze społeczeństwa pod koniec czerwca '93", Report No. 1028/93, July, (N=613), p. 12-13.

Unskilled workers are more likely than skilled workers to prefer KPN and PSL. Lower relative wages and poor prospects in the labor market are bound to increase dissatisfaction with the course of reform. Skilled workers have better chances of finding private sector jobs and better wages, and this table shows that they prefer BBWR (Walesa's "non-party" electoral alliance) and then SLD. Pensioners displayed a split between support for redistributionist parties (SLD, PSL) and anti-communist parties (UD, BBWR).

More than 40% of farmers declared support for PSL, more than any other socioeconomic group. While considerably lower, the second political tendency amongst voters was for the Catholic and nationalist right, represented here by KPN and BBWR. Here, we can sense the conflict between economic interests (PSL) and the nationalist, anti-communist views. However, the most clearly Catholic party ZChN, did not gain much support in this poll. The clearest political preference was expressed by students, 45% of whom declared support for UD.

5.6 INTERPRETING THE REGRESSION RESULTS

Unemployment matters for elections

So far in this paper, we have thought about how regional data can shed light on the connection between unemployment, income and voting behavior. Even from the first year of transition, there has been an identifiable variation in political preferences according to regional levels of income and unemployment, with the latter being undoubtedly the most significant economic factor.

Areas which have sustained greater job losses during transition gave a falling share of their votes to those candidates most closely identified with radical, market-oriented reform. As unemployment rose, so did levels of support for candidates running on a more redistributive platforms. Likewise, people in *województwa* less affected by unemployment or falls in real income are more likely to support liberal parties. Furthermore, we can identify interest-based voting amongst peasant farmers. We can decisively conclude that, in contradiction to Kabaj and Kowalik (1995), interest-based voting models along the lines of those used in advanced market economies can be applied fruitfully to Poland.

It is a long-standing tenet of political economy that interest groups will be differentially sensitive to inflation and unemployment, as well as to economic reform programs such as trade liberalization or privatization. It is often argued that trade unions, the poor, and lower skilled groups are more concerned about unemployment than inflation, and therefore will tend to support political parties which emphasize employment policies. While this inflation-unemployment dichotomy is not appropriate to Poland. Shapiro and Granville (1996) argue that low income groups in

transition economies are more susceptible to inflation than wealthier ones because of dependence on indexed pay and benefits, and because the lack of financial alternatives means that domestic currency savings were wiped out by inflation. However, once stabilization took effect, unemployment took on a new significance as the leading economic threat to households near the poverty line.

The two questions which prefaced this paper were whether, and to what extent, voting patterns in Poland can be explained by economic variables, and whether interest-based voting patterns are emerging. The answer to both of these questions is positive. There are clear and persistent patterns in political preferences according to unemployment and income levels. More detailed regressions and public opinion data reinforce the intuitive conclusions about the socioeconomic constituencies of political parties.

Further evidence that there are economic constituencies for these four political tendencies is provided in Table 5.36. For each of the four elections, the candidate identified with the party or tendency is listed along with a sign indicating whether the income-unemployment regression provided a positive or negative coefficient. In other words, the sign indicates whether votes for the specified candidate or party was positively or negatively related to regional variations. The asterisks designate the level of significance of the coefficient.

TABLE 5.36
RELATION BETWEEN REGIONAL VARIATIONS IN UNEMPLOYMENT AND VOTES

Each of political tendencies in Table 5.36 has a consistent -- and in half of these a statistically significant -- relation to unemployment levels. This is especially true for the post-Solidarity groups. As for the PSL's positive coefficient for unemployment in 1991, this can be attributed to the party's success in gaining urban support for their redistributive and egalitarian policy statements. Since this time, the level of non-agricultural support for the PSL has fallen.

The results are even stronger if we compare the two political forces which can realistically compete for the median voter, SLD and the post-Solidarity parties of the right. Taking the election results for these parties (including only those parties with parliamentary representation), only WAK in 1991 did not demonstrate a statistically

significant relation to unemployment, although the negative sign is consistent with those for the other center-right parties. Table 5.36 demonstrates that the SLD has become the legitimate recipient of the votes of the unemployed. The post-Solidarity parties and those of the right, including those in the nascent AWS electoral coalition, draw votes from regions with higher employment levels but lower per capita incomes. Surprisingly, the rapid emergence of unemployment in Poland has not given rise to greater support for radical populist parties. The most populist tendency of these four is the center-right. Among politicians of this tendency, Olszewski is the most popular proponent of both anti-communism and anti-neoliberalism. From his six month tenure as prime minister in 1992, electoral victory of this bloc may lead to pressures for higher levels of protectionism and state intervention.

Party consolidation

Throughout this chapter, we have referred to the problems stemming from the fragmentation of the former anti-communist opposition. The change of the rules of the electoral game in 1993, and the unexpected losses to the post-communist parties, combined with Kwasniewski's win in the 1995 presidential elections, has finally provided the impetus for consolidation. However, some of the present moves towards party consolidation may reflect the desire to unseat the former communists more than a unified political orientation.

This section of the chapter asks whether there is uniformity or at least common interests in this coalition building and in the economic composition of their electorates. For the 1991 and 1993 elections, the vote shares of those parties joined in new conglomerations are summed and regressed against the same economic data used previously. If the mergers make sense in terms of common economic bases, there should be an improvement in the numerical results greater than the average of the individual results.

In April 1994, *Unia Demokratyczna* and *Kongres Liberalno-Demokratyczny* merged to form *Unia Wolnosci* (Freedom Union -- UW), and Former Finance Minister Balcerowicz was quickly named party leader. If consolidation of these two parties into one front representing the most pro-reform forces is to work, then the

combination of their electorates should show a stronger relation to lower unemployment and higher income levels.

TABLE 5.37
PROJECTED RESULTS FOR SEJM ELECTIONS: "UNIA WOLNOSCI"
1991

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.359	0.116	-3.107	0.0033
INCOME	3.184	0.660	4.823	0.0000
UNEMPLOY	-0.049	0.181	-0.271	0.7873

N = 47. R square: 0.347. Adjusted R square: 0.318. SEE: 0.050. F-ratio (sig): 11.946 (0.0001)

1993

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.090	0.084	-1.063	0.2934
INCOME	0.648	0.205	-3.155	0.0029
UNEMPLOY	-0.151	0.140	-1.084	0.2845

N = 47. R square: 0.248. Adjusted R square: 0.214. SEE: 0.048. F-ratio (sig): 7.265 (0.0019)

All numbers rounded off to third or fourth digit.

Source: GUS, Panstwowa Komisja Wyborcza (1991, 1993).

For the 1991 election, the results for "UW" initially look like an averaging of the separate calculations for UD and KLD. Upon closer examination, the coefficient for income doubles, and retains the very high level of significance of the KLD estimates. The coefficient for unemployment remains negative, even if the coefficient is relatively small. The R square is closer to that for the KLD than UD, and thus the overall explanatory power of the regression is higher than the average of the individual R squares. This indicates that these parties had similar constituencies, with a positive coefficient for income and a negative relation to unemployment. We can conclude that the political merger was logical and a positive step, in the presence of higher thresholds for parliamentary representation and the electoral strength of the SLD.

The same exercise was performed for the 1993 election. The coefficient for income is lower, but retains its sign and significance. Income shows a higher negative coefficient than the 1991 "UW" figures, with improved significance of the t-stat. While these results may appear to be weaker than those for 1991, the more important

observation is that the consolidated vote share provides better results in coefficients, significance, and R square than the individual regressions for UD and KLD.

While our regressions show that there are grounds for concluding that UD and KLD electorates shared interests, and thus that merger was conducted on sound principles, consolidation still has not led to a resurgence of popularity for UW. Between 1993 and 1996, support for UW was close to 10%. In January 1997, support hovered around only 7%²⁹, and that same month sank below the parliamentary threshold for the first time, to 4%³⁰. As unemployment rose, the UW and its predecessor parties lost votes which they have been unable to win back. Survey data suggests that UW is losing its electorate to the new formation of *Akcja Wyborcza "Solidarnosc"* (Solidarity Electoral Action -- AWS).

In the summer of 1996, NSZZ "*Solidarnosc*", under its popular leader Krzaklewski, voted to form an alliance between ZChN, KPN, and PC, with numerous other small parties and groups, into the electoral coalition *Akcja Wyborcza "Solidarnosc"* (Solidarity Electoral Action -- AWS). It is still unclear whether, like the Solidarity movement of 1990, AWS represents more than a loose coalition formed in common opposition to the present government. Given the diverse emphases on religion, nationalism, and pace and direction of economic reform, there are doubts whether AWS can formulate and stick to a coherent policy program. However, most of its member parties share a conservative social outlook and a pro-trade union orientation, favoring job creation policies and slower privatization to further workers' interests. Within the present framework, we can ask whether there are identifiable economic interests amongst supporters of the parties on the right.

In the regressions for the 1991 and 1993 parliaments, the votes in each *województwo* for the parties in AWS which have a national presence were totaled, as with the "UW" analysis. Taking this total vote as an AWS proxy, it was regressed against unemployment and per capita income. Table 5.36 presents the results of the extrapolated regressions for the 1991 and 1993 elections. The improvement in the results suggests that the very low shares of votes disguised the presence of voting trends.

²⁹ *OMRI Daily Digest*, No. 16, Part II, 23 January 1997.

³⁰ *OMRI Daily Digest*, No. 19, Part II, 28 January 1997.

The aggregated vote provides much more precise information on the economic electorate of AWS. Approval of these parties is characterized by a **significant, negative relation with income and unemployment**, although income is the more decisive factor. Poland is an unusual case, in that working class organizations and trade unions tend to be socially conservative. This helps to explain why the AWS parties have been able to mobilize the votes of blue-collar workers. In many ways, the SLD is competing for the same demographic group. The difference in terms of domestic issues lies predominately in religion, anti-communist feeling, and views on Church-state relations.

TABLE 5.38

PROJECTED RESULTS FOR SEJM ELECTIONS: "AKCJA WYBORCZA 'SOLIDARNOSC'"
1991

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.918	0.188	4.888	0.0000
INCOME	-2.481	1.073	-2.312	0.0254
UNEMPLOY	-0.596	0.293	-2.027	0.0486

N = 46. R square: 0.160. Adjusted R square: 0.122. SEE: 0.081. F-ratio (sig): 4.271 (0.0200)

1993

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.400	0.116	3.424	0.0013
INCOME	-0.448	0.285	-0.157	0.8757
UNEMPLOY	-0.572	0.194	-2.955	0.0050

N = 48. R square: 0.175. Adjusted R square: 0.138. SEE: 0.066. F-ratio (sig): 4.682 (0.0143)

All numbers rounded off. Source: GUS data, Panstwowa Komisja Wyborcza (1991, 1993).

The R square for "AWS" is higher than that for each rightist party or coalition -- *Ojczyzna*, KPN, PC, BBWR, and Solidarity -- alone. Furthermore, the **negative relation with unemployment** is better than that for *Ojczyzna*, and the **relation with lower incomes** is also stronger. If AWS continues to attract the support of more than 25% of voters, as in June 1997, then stands a good chance of remaining the primary competitor for the SLD.

Much of the explanation for why consolidation of the fragmented right took several years and several electoral failures can be attributed to the changes in the rules of the electoral game. There was hesitation in the center-right because the total level

of popular support for these parties was quite strong, but it was not clear how these votes would be distributed. The election results were conclusive enough to convince even the political entrepreneurs of the right that the switch from low threshold proportional representation to high threshold majoritarian seats now requires cooperation within the tendency. The parliamentary-cabinet structure of government, in which victory enables the governing coalition considerable discretion in policy making, strengthens the need for the opposition to fight on a unified front.

Interpretations and prognoses

One interesting conclusion from this survey is that the party system in post-Communist Poland is definable along cleavages dating from the outset of political mobilization³¹. The two largest parties under the socialist system, the Polish United Workers' Party and the Polish Peasant Party, have reorganized and prospered under democracy. The two other tendencies as defined in this paper have their roots in the opposition, with the majority -- but by no means all of them -- linked to Solidarity. The first cleavage is between post-communist and anti-communist parties. A cross-cleavage can be defined between secular and Catholic-traditionalist tendencies. Among the post-communist parties, we can place the SLD in the former and the PSL in the latter category. As regards to the anti-communist parties, UW is more closely identified to secular values of civil liberty and tolerance, while parties of the center-right tend towards greater emphasis on Catholic and traditional values. Exception to this are KPN, which is economically protectionist but secular, and the small Union of Real Politics (UPR), which is closer to the classic libertarian model. Furthermore, these historical cleavages will continue to define the consolidating political system for the foreseeable future. As part of democratic development, these four tendencies are becoming more clearly identified with particular economic interests and constituencies.

Our proposal that voting behavior in Poland's second parliamentary election was more complex than pro or anti-reform reactions receives further support from elections in other transition countries. Taking the 1993 Russian elections as their case

³¹ S.M. Lipset and S. Rokkan, "Cleavage Structures, Party Systems, and Voter Alignments: An Introduction", in Lipset and Rokkan, eds., *Party Systems and Voter Alignments: Cross-National Perspectives*, (New York, 1967), pp. 1-63.

study, Whitefield and Evans³² asked whether the loss of electoral support for the most pro-reform parties should be understood as a protest vote or as part of an iterative progression towards interest-led voting. A protest vote would indicate that the electorate has accepted democratic and market principles but nevertheless votes to express a general dissatisfaction with the manner in which reforms had been enacted. On the other hand, if democratization involves a learning process on the part of both voters and politicians, a greater diversification of the vote may indicate that voters who were initially ignorant of the implications of radical economic reform have gained experience and gradually come to identify their interests and learn how to vote accordingly. Whitefield and Evans predict that as part of an iterative process, Russian voters will continue to support economic reform but of a less radical variant.

The interpretation of politics as a learning process leads to some realistic conclusions for the case of Poland. As the economy recovers, voters may move to more pro-reform positions. Changing economic conditions can shift electorates. Evans and Whitefield propose that more competent governments may increase support for reform. For Poland, Gibson and Cielecka predict that economic growth will reduce the share of the vote going to the SLD³³.

However, economic growth in itself has not been sufficient to reduce the SLD's vote. At the time of the 1993 elections, Poland was in its second year of solid growth. Our model predicts that the shift in voting will occur when GDP growth leads to growth in employment. In the first three years of the Polish recovery, employment growth has lagged considerably behind the pace of growth³⁴. By December 1996, the unemployment rate had fallen to just over 13%. As the rate of job creation picks up, and if economic growth absorbs more unemployed labor, then the current success of AWS could potentially be translated into a stable electorate.

There are a few specific reasons why decreasing unemployment through job creation will benefit the anti-communist right rather than UW. Considering the socioeconomic composition of the unemployed (lower educational levels, more women than men), those who exit joblessness will probably enter lower-paid

³² S. Whitefield and G. Evans, "The Social Context of the December Elections in Russia: Public Attitudes and the Transition Experience", *mimeo*, 1994.

³³ Gibson and Cielecka, 1995, pp. 781-2.

³⁴ Bell and Mickiewicz, 1997.

employment in light industry and services. If AWS is able to turn itself into a social democratic, labor party then it would be a much more natural association than UW for these voters. *Unia Wolnosci* voters tend to have higher education, higher incomes, and to be in employment already. Solidarity voters, on the other hand, work but tend to have lower per capita incomes.

The inverse of this equation is that lower unemployment rates and higher wages may decrease support for SLD, even though this would be a fulfillment of their campaign promises. More employed voters may decide to support AWS on the grounds that the SLD have too much power in controlling the Sejm and presidency (although Kwasniewski is presently a member of neither SdRP nor SLD).

There are still several months before the autumn elections, and success for Solidarity is not guaranteed. Krzaklewski is relatively untested as a political leader. *Akcja Wyborcza "Solidarnosc"* consists of a wide array of small, independent groupings, not all of which are unanimously in favor of joining the coalition. KPN recently split over exactly this issue, but with only 3% popular support, this is hardly an earth-shattering event for Polish political stability. AWS's economic policy might be disproportionately influenced by the liberal *Ruch Stu* (Movement of One Hundred). The problems of coalition building are manifold. We will have to wait and see whether AWS will be able to build a coherent identity, whether it can cooperate rather than compete with Olszewski's current organization, *Ruch Odbudowy Polski* (Movement for the Reconstruction of Poland). AWS also has to attract voters away from the current table leaders, SLD. Growing AWS success appears to threaten UW's position. Poland, then, may be heading towards a three-party system with SLD and AWS dominant, but with the PSL disproportionately influential as coalition-maker.

TABLE 5.2
PERSONAL INCOME AND UNEMPLOYMENT LEVELS
FIRST ROUND OF 1990 PRESIDENTIAL ELECTIONS

Walesa

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.867	0.184	4.699	0.000
INCOME	-0.368	0.171	-2.139	0.038
UNEMPLOY	-1.582	0.580	-2.727	0.009

R square: 0.171. Adjusted R square: 0.135. SEE: 0.081. *F*-ratio (sig): 4.749 (0.013)

Tyminski

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.237	0.115	-2.060	0.045
INCOME	0.352	0.107	3.289	0.002
UNEMPLOY	1.885	0.361	5.219	0.000

R square: 0.402. Adjusted R square: 0.376. SEE: 0.051. *F*-ratio (sig): 15.444 (0.000)

Mazowiecki

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.170	0.137	-1.239	0.222
INCOME	0.384	0.128	3.005	0.004
UNEMPLOY	-0.754	0.431	-1.751	0.087

R square: 0.262. Adjusted R square: 0.229. SEE: 0.060. *F*-ratio (sig): 8.146 (0.001)

Bartoszcze

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.477	0.091	5.252	0.000
INCOME	-0.386	0.085	-4.564	0.000
UNEMPLOY	-0.104	0.285	-0.363	0.718

R square: 0.321. Adjusted R square: 0.291. SEE: 0.040. *F*-ratio (sig): 10.865 (0.000)

Cimoszewicz

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.055	0.075	0.729	0.470
INCOME	-0.001	0.070	-0.019	0.985
UNEMPLOY	0.603	0.236	2.551	0.014

N = 49. R square: 0.133. Adjusted R square: 0.096. SEE: 0.033. *F*-ratio (sig): 3.543 (0.037)

All numbers rounded off to third decimal place.

Source: Parysek *et al.*, 1991; own calculations from GUS data.

TABLE 5.7
SHARES OF VOTES IN 1991 PARLIAMENTARY ELECTION

	<i>'000s votes</i>	<i>% votes</i>	<i>No. of seats</i>	<i>% of seats</i>
Unia Demokratyczna	1382.1	12.3	62	13.5
Sojusz Lewicy Demokratycznej	1344.8	12.0	60	13.0
Wyborcza Akcja Katolicka	980.3	8.7	49	10.7
Porozumienie Obywatelskie Centrum	977.3	8.7	44	9.6
Polskie Stronnictwo Ludowe "SP"	973.0	8.7	48	10.4
Konfederacja Polski Niepodleglosci	841.7	7.5	46	10.0
Kongres Liberalno-Demokratyczny	840.0	7.5	37	8.0
Ruch Ludowy "PL"	613.6	5.5	28	6.1
NSZZ "Solidarnosc"	566.6	5.1	27	5.9
Polska Partia Przyjaciol Piwa	367.1	3.3	16	3.5
Chrzescijanska Demokracja	265.2	2.4	5	1.1
Unia Polityki Realnej	253.0	2.3	3	0.7
Solidarnosc "Pracy"	231.0	2.1	4	0.9
German minority	132.1	1.2	7	1.5
Total others	630.8	12.7	24	5.1

Source: *Rocznik Statystyczny*, 1993, p. 73.

Others = parties with fewer than 2% of the vote, plus the German minority and its four allotted seats.

TABLE 5.12

SHARE OF THE VOTE IN THE SEPTEMBER 1993 SEJM ELECTION

	<i>'000 votes</i>	<i>% votes</i>	<i>No. of seats</i>	<i>% of seats</i>
SLD	2815.2	20.4	171	37.2
PSL	2124.4	15.4	132	28.7
UD	1461.0	10.6	74	16.1
Unia Pracy	1005.0	7.3	41	8.9
Katolicki Komitet Wyborczy "Ojczyzna"	878.4	6.4	--	--
KPN	795.5	5.8	22	4.8
Bezpartyjny Blok Wspierania Reform	746.7	5.4	16	3.5
NSZZ "Solidarnosc"	676.3	4.9	--	--
Porozumienie Centrum	610.0	4.4	--	--
KLD	550.6	4.0	--	--
UPR	438.6	3.2	--	--
Samoobrona - Leppera	384.0	2.8	--	--
Partia "X"	377.5	2.7	--	--
German minority	84.2	0.6	3	0.6
Others	848.8	6.1	1	0.2

Source: *Rocznik Statystyczny*, 1994, p. 77.

FIGURE 5.23

FULL REGRESSION RESULTS FOR 1991 SEJM ELECTIONS: UD, KLD

UD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.4034	0.1025	3.935	0.0003
INCOME	-0.8827	0.4294	-2.056	0.0461
UNEMPLOY	-0.1377	0.0841	-1.638	0.1088
URBAN	-0.0219	0.0555	-0.394	0.6953
FARMING	-0.3205	0.0845	-3.791	0.0005
TRADE	-0.0276	0.3974	-0.069	0.9450

R square: 0.7284. Adjusted R square: 0.6961 SEE: 0.0230 F-ratio (sig): 22.529 (0.0000)

KLD

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.0106	0.0848	-0.125	0.9011
INCOME	0.5572	0.3550	1.570	0.1240
UNEMPLOY	-0.0770	0.0695	-1.107	0.2745
URBAN	0.0306	0.0459	0.669	0.5071
FARMING	-0.0895	0.0699	-1.281	0.2071
TRADE	-9.47E-04	0.3285	-0.003	0.9977

R square: 0.5983. Adjusted R square: 0.5505. SEE: 0.0190. F-ratio (sig): 12.513 (0.0000)

Source: GUS Data, Panstwowa Komisja Wyborcza (1991).

TABLE 5.36
RELATION BETWEEN REGIONAL VARIATIONS IN UNEMPLOYMENT AND VOTES

	1990	1991	1993	1995
Peasant	Bartoszcze =	PSL-PL + PL =**	PSL = PSL-PL =	Pawlak =*
SLD	Cimoszewicz +**	SLD +**	SLD +***	Kwasniewski 1 +* Kwasniewski 2 +***
UD, KLD, UW	Mazowiecki =	KLD = UD =	KLD = UD =	Kuron +**
Anti-communist, Catholic	Walesa 1 =** Walesa 2 =***	POC =** WAK =	PC + "S" =* Ojczyzna =** BBWR =*	Walesa 1 =*** Walesa 2 =*** Gronkiewicz = Olszewski =**
Others	Tyminski +***	KPN = PPPP +*	KPN =** UP =**	Korwin-Mikke = Zielinski =**

Note: Significance levels (one-tail test): * = 0.10 ** = 0.05 *** = 0.005
Source: GUS Data, Panstwowa Komisja Wyborcza (1990, 1991, 1993, 1995).

APPENDIX 5.1

REGRESSION RESULTS FOR 1991 SEJM ELECTION:

NSZZ "S"

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.025	0.054	-0.462	0.6469
INCOME	0.422	0.308	1.372	0.1778
UNEMPLOY	0.048	0.084	0.569	0.5727

R square: 0.0494. Adjusted R square: 0.0019. SEE: 0.0225. *F*-ratio (sig): 1.039 (0.3632)

POC

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.113	0.072	1.576	0.1120
INCOME	0.015	0.411	0.037	0.9704
UNEMPLOY	-0.246	0.112	-2.185	0.0342

R square: 0.0973. Adjusted R square: 0.0572. SEE: 0.0311. *F*-ratio (sig): 2.424 (0.100)

WAK

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.300	0.121	2.466	0.0175
INCOME	-1.120	0.696	-1.609	0.1146
UNEMPLOY	-0.125	0.191	-0.659	0.5135

R square: 0.059. Adjusted R square: 0.0173. SEE: 0.053. *F*-ratio (sig): 1.414 (0.2358)

UPR

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.022	0.016	-1.388	0.1720
INCOME	0.264	0.093	2.849	0.0066
UNEMPLOY	-0.012	0.025	-0.482	0.6318

R square: 0.1627. Adjusted R square: 0.1255. SEE: 7.015E-03. *F*-ratio (sig): 4.372 (0.018)

"S" PRACY

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.065	0.084	-0.779	0.4414
INCOME	0.466	0.465	1.002	0.3236
UNEMPLOY	0.195	0.130	1.491	0.1452

R square: 0.0749. Adjusted R square: 0.02042. SEE: 0.03184. *F*-ratio (sig): 1.375 (0.2665)

Source: GUS Data, Panstwowa Komisja Wyborcza (1991).

APPENDIX 5.2

REGRESSION RESULTS FOR 1993 SEJM ELECTION: UP, PC, BBWR

UP

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.045	0.033	1.337	0.1882
INCOME	0.0756	0.081	0.929	0.3579
UNEMPLOY	-.0122	0.055	-2.201	0.0330
R square: 0.1481. Adjusted R square: 0.1094. SEE: 0.0188. F-ratio (sig): 3.824(0.0294)				

PC

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.016	0.020	0.774	0.4428
INCOME	0.070	0.049	1.442	0.1564
UNEMPLOY	0.004	0.033	0.125	0.9011
R square: 0.0473. Adjusted R square: 0.0040. SEE: 0.011. F-ratio (sig): 1.093(0.3441).				

BBWR

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.053	0.029	1.811	0.0767
INCOME	0.040	0.071	-0.556	0.0407
UNEMPLOY	-0.102	0.049	-2.106	0.0407
R square: 0.1158. Adjusted R square: 0.0773. SEE: 0.017. F-ratio (sig): 3.012 (0.0590). Source: GUS Data, Panstwowa Komisja Wyborcza (1993).				

APPENDIX 5.3

REGRESSION RESULTS FOR THE 1995 PRESIDENTIAL ELECTION, FIRST ROUND

H. GRONKIEWICZ-WALTZ (INDEPENDENT)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.0417	0.0170	2.451	0.0184
INCOME	0.0040	0.0136	0.292	0.7717
UNEMPLOY	-0.0358	0.0148	-2.411	0.0202
URBAN	-0.0237	0.0114	-2.062	0.0453
FARMING	-0.0298	0.0134	-2.229	0.0311
TRADE	0.0238	0.0191	1.243	.2207

N = 49. R square: 0.497. Adjusted R square: 0.439. SEE: 4.51E-03. F-ratio (sig): 8.51 (0.0000)

J. KORWIN-MIKKE (UPR)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.0153	0.0160	-0.956	0.3444
INCOME	-6.888E-04	0.0127	-0.054	0.9571
UNEMPLOY	-0.0285	0.0139	-2.047	0.0468
URBAN	0.0349	0.0108	3.243	0.0023
FARMING	0.0177	0.0125	1.411	0.1655
TRADE	0.4002	0.0179	2.230	0.0310

N = 49. R square: 0.726. Adjusted R square: 0.694. SEE: 4.23E-03. F-ratio (sig): 22.752 (0.0000)

J. KURON (UW)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.1036	0.0401	2.584	0.0133
INCOME	-0.0069	0.0320	-0.215	0.8310
UNEMPLOY	0.0484	0.0349	1.385	0.1731
URBAN	-0.0398	0.0270	-1.472	0.1484
FARMING	-0.1212	0.0315	-3.848	0.0004
TRADE	0.0987	0.0451	2.188	0.0341

N = 49. R square: 0.832. Adjusted R square: 0.813. SEE: 0.011. F-ratio (sig): 42.65 (0.0000)

A. KWASNIEWSKI (SLD)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.7733	0.3199	2.418	0.0199
INCOME	-0.5069	0.2552	-1.986	0.0534
UNEMPLOY	0.2957	0.2785	1.062	0.2942
URBAN	0.2785	0.2154	1.293	0.2031
FARMING	-0.3168	0.2512	-1.261	0.2141
TRADE	-0.4155	0.3596	-1.155	0.0199

N = 49. R square: 0.2644. Adjusted R square: 0.1789. SEE: 0.0848. F-ratio (sig): 3.091. (0.180)

J. OLSZWSKI (ROP)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.1753	0.0643	-2.725	0.0093
INCOME	0.1101	0.0513	2.145	0.0376
UNEMPLOY	-0.1074	0.0560	-1.918	0.0317
URBAN	0.0946	0.0433	2.184	0.0345
FARMING	0.2828	0.0505	5.597	0.0000
TRADE	0.1135	0.0723	1.569	0.1239

N = 49. R square: 0.643. Adjusted R square: 0.602. SEE: 0.017. F-ratio (sig): 15.514 (0.0000)

W. PAWLAK (PSL)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	-0.0856	0.0900	-0.951	0.3471
INCOME	0.0429	0.0718	0.597	0.5534
UNEMPLOY	-0.0288	0.0784	-0.367	0.7155
URBAN	0.1111	0.0606	1.833	0.0737
FARMING	0.2959	0.0706	4.186	0.0001
TRADE	-0.0967	0.1012	-0.956	0.3471

N = 49. R square: 0.747. Adjusted R square: 0.718. SEE: 0.024. F-ratio (sig): 25.419 (0.0000)

L. WALESIA (IND.)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.5787	0.3146	1.839	0.0728
INCOME	-0.0402	0.2501	-0.160	0.8737
UNEMPLOY	-0.9662	0.2739	-3.527	0.0010
URBAN	-0.3076	0.2119	-1.452	0.1539
FARMING	-0.0780	0.2471	-0.315	0.7539
TRADE	0.2908	0.3537	0.822	0.4156

N = 49. R square: 0.270. Adjusted R square: 0.186. SEE: 0.083. F-ratio (sig): 3.188 (0.0155)

T. ZIELINSKI (IND.)

<i>Variable</i>	<i>Coefficient</i>	<i>Standard error</i>	<i>t value</i>	<i>Significance of t value</i>
CONSTANT	0.0677	0.0144	4.707	0.0000
INCOME	-0.0075	0.0115	-0.658	0.5143
UNEMPLOY	0.0105	0.0125	0.835	0.4085
URBAN	0.0117	0.0097	1.208	0.2336
FARMING	-0.0604	0.0113	-5.342	0.0000
TRADE	-0.0472	0.0162	-2.917	0.0056

N = 49. R square: 0.790. Adjusted R square: 0.765. SEE: 3.814E-03. F-ratio (sig): 32.28 (0.0000)

Source: GUS data, Panstwowa Komisja Wyborcza (1993).

Chapter 6

Conclusions on the Political Economy of Transition in Poland

6.1 POLITICAL ECONOMY OF VOTING

In Chapter 5, basic linkages indicative of economic voting were revealed through analysis of *województwo* level data. The results showed that there are trends where income and unemployment levels are associated with levels of support for parties which are more versus less identified as committed to market reform. While the analysis shows us that such patterns exist, it does not tell us about the decision processes behind vote casting. This chapter will address this gap by expanding upon some ideas on voting as a means of pursuing economic interest in a transitional economy. In particular, this chapter asks how economic performance can influence how voters decide.

The assumptions of the following argument have been specified to meet the institutional constraints and incentives of the political and economic transition as described in the preceding chapters. To begin with, voting behavior is modeled to be rational, but information is imperfect and there is a degree of uncertainty. Because these models are understood to apply to countries undergoing simultaneous democratization and marketization, there is limited or near zero information at the outset regarding either optimal policies or track records of political actors apart from the former communists. Even this information is devalued because of the reconstitution and apparent reorientation of these parties towards a social democratic stance.

Expectations of reform success

Standard economic thought on the success or failure of economic reform programs often hinges upon credibility. A credible reform program can boost both public support for reform as well as help to change people's behavior to reflect these expectations and the new rules of the game. Less credible reforms are more likely to fail because people rationally adapt their behavior in preparation for the policy reversal. For instance, for stabilization to work, people have to have a greater

willingness to hold stocks of domestic currency and use it for transactions. Mass privatization will be successful only if people acquire participation certificates. Development of the private sector and small businesses will only occur when a proportion of the population assume the risk of entrepreneurial activity.

Attempts to reform the socialist economy undertaken during the last five years of communist rule in Poland were hindered not only by their lack of consistency and completeness, but also by very low levels of public confidence in their success. Figure 6.1 reports findings from public opinion surveys on whether government policy would be successful in leading the country from economic crisis¹. The first date corresponds to the Jaruzelski government, the next five (April 1986 to August 1988) to Messner, the next three to Rakowski (November 1988 to May 1989), and the final date to the first post-communist government. In November 1989, the Mazowiecki government announced the Balcerowicz Plan, and continued to revise the legal code to prepare for economic liberalization and the "big bang" of January 1990. As we can see from Figure 6.1, the Mazowiecki government operated under a distinct advantage compared to the various late socialist governments in that the public belief was that the post-communist program would succeed where the Communists had repeatedly failed. Both Messner and Rakowski experienced a surge of public optimism at the start of their governments' tenure, but this was never higher than 50% and confidence deteriorated thereafter. In the figures for November 1989, there was an unusually strong belief that the Mazowiecki government's policies would be successful, combined with a very low level of pessimism or skepticism.

Figure 6.2 provides further evidence that there was a change in how the population perceived the state of the economy. Between April 1987 and May 1989, at least 40% of those surveyed believed that current economic difficulties were of a chronic rather than temporary or transitional nature². However, in November 1989, the perception of the economic crisis had changed. Only 21.7% of the public believed that the economic crisis was chronic, whereas 76% thought that current problems were only temporary. This is further evidence of a high level of confidence that radical reform would provide the break with the past necessary to take the country

¹ CBOS, 1989, "Opinia o polityce gospodarczej rządu T. Mazowieckiego", Report No. 522/89, November, p. 3.

² *ibid*, p. 3.

out of economic crisis. During 1990, the credibility of the Balcerowicz Plan continued at historically high levels. For 1990 as an average, opinion surveys showed that more than half of the public believed the Balcerowicz Plan provided a real chance for ending the current economic crisis³ -- 20% more than actually supported the program.

Uncertainty about the scale of the resulting transitional recession led to an intentional if unofficial policy of publicizing optimistic forecasts about how the likely scale of the contraction and the speed of the recovery. Balcerowicz (1995, p. 309) cites not only his psychological and intellectual difficulty in making predictions, but also his resistance to the "constant demand to commit 'the fallacy of misplaced concreteness': to say when exactly when things would get better". Anecdotal evidence suggests that these were not all sins of omission. In August 1989, *Tygodnik Solidarnosci* intentionally suppressed Jacek Rostowski's forecast that unemployment rates could soon reach 40%⁴. This approach to public relations can be contrasted to Klaus's approach in Czechoslovakia, where a full year was spent preparing the public for the potential hardships as well as opportunities of reform.

Part of the information problem could also have come from honest underestimations by official bodies of the difficulties in adjustment which would impact production and consumption⁵. Managers of state enterprises and government economists seemed to be stuck in the mind set of the planned economy. Articles of the day indicate that managers sincerely thought that once liberalization made material and labor inputs more available, production would soar.

The extraordinary high expectation that the "big bang" would be successful partly rests upon political factors stemming from the recent capitulation by the communist party and the correlated, tremendous legitimacy of the Solidarity government. However, the radicalness of the Balcerowicz Plan, with its complete rejection of reform of the socialist economy and embrace of the market, reinforced its economic credibility. One advantage was its formulation within a coherent framework of liberal market economics. The embrace of market economics not only reflected the general rejection of the failed systems of socialist and market socialist economics, but it

³ CBOS, 1991, "Spoleczna ocena polityki gospodarczej rządu", Report No. 790/91, p. 6.

⁴ See also Rostowski (1989).

⁵ *Zycie Gospodarcze*, 10 December 1989, p. 4.

also embodied the current *zeitgeist* amongst academic and professional economists. The public's rejection of the socialist system and acceptance of its opposite was reinforced by the domestic and international policymaking elite's emphasis on liberal thought.

"Myth of the market". While this interpretation is essentially a positive analysis, others have emphasized the foundations of public support for reform in a rejection of the old order. In this view, acceptance of the market lay not so much in public acceptance of how market mechanisms work, but rather from the belief that the market economy was the opposite of "real socialism". Starting from observation of the shortcomings of socialism, people are believed to have made extrapolations about the benefits of the market, with insufficient attention paid to capitalism's down sides. For authors who espouse this view, the most important element for acceptance of reform was the contrast with the socialist management of the economy. Some consider it useful to look back to the role of perceptions of democracy and the market in the 1980s to understand popular support for market reforms. Frentzel-Zagorska and Zagorski (1993) theorize that whatever negative characteristics were attributed to socialism during the years of deepening public dissatisfaction, the market economy – as the opposite or antithetical system – was attributed with positive and almost miraculous qualities. The socialist order was fundamentally unjust, so democracy, the private sector and the market were preferable in that they were not unjust.

Kolarska-Bobinska (1990) uses the concept of the "myth of the market" to describe how competition and the market mechanism were set in opposition to the planned economy. As the centralized system became progressively less able to fulfill the material aspirations of the 1970s, so grew the belief that only the market could provide. Kolarska-Bobinska emphasizes that this support for the efficiency of the market did not rest on public approval of market determination of higher remuneration for more valuable skills, or from a deep understanding of production and consumption. Instead, the "myth of the market" was rooted in observations of the superior consumption patterns in the West, without proper consideration of the meaner and harsher aspects of capitalism.

Such conclusions are not the sole domain of sociologists. Gomulka (1994) also emphasizes the importance of perceptions of what economic reform would deliver for its political acceptability. In the late 1980s, the severity of the economic crisis compounded disbelief in the administration's ability to reverse trends. As much of the economic misery

was as times exaggerated in public perception, so the scale of benefits to be had from a free market was potentially aggrandized in similar disproportion. At the moment of transition, acceptance of the market was high despite lack of familiarity with it. This was possible because of the rejection of socialism rather than acceptance of the market. The problem with this scenario is that support for market democracy could be eroded if the expected goods were not delivered on time. There is little scope for the value of democratic ideals in the face of sustained hardships, which links back into the interpretation of election results as the result of generalized discontent with the course of economic reforms.

Legitimacy. Another way of conceptualizing the origins of the high levels of public support for the Mazowiecki government's economic policy is linked to the concept of legitimacy. Kaminski (1991) defines legitimacy for a socioeconomic regime as the public's willingness to "acquiesce to the existing distribution of power and privileges", but not through fear of the regime's coercive use of force. Legitimacy may be established through the force of tradition, religion, law, or a charismatic leader. However, in his interpretation of the Polish situation, Kaminski identifies the source of the legitimacy of the socialist state as having depended upon its ability to deliver rising economic performance, as measured through increased consumption and improved standards of living. As the regime's ability to deliver the goods deteriorated, continued passive acceptance of the regime was based not in its legitimacy but, as Kaminski argues, negative legitimation. By negative legitimation, he means that beyond a dependence on the state to fulfill most basic needs (work, housing, education), other motives such as a sense of security in welfare terms, a sense of irreversibility of the political order, and fear of the unknown alternatives can also forward people's accommodation of the regime. Fear of the alternative can create passive acceptance of the *status quo*.

But what triggers the public's rejection of the *status quo*? As in war of attrition models, there must be a threshold where continuation of the *status quo* becomes costlier than the probable cost of reform. Under an authoritarian regime, willingness to mobilize in favor of reform must also be tempered by the likelihood that the regime will use coercion to defend its position. After the transition, the question arises as to how long the legitimacy of the new regime will last. The general feeling seems to be that, as in the "extraordinary politics" idea, the political capital from effecting political and economic

transition is itself transitory. If governments under the new, democratic system do not pay attention towards generating coalitions of support for reform, then public opposition to the distributional impact of transition will grow.

Making this sort of argument depends upon a different definition of legitimation. Legitimation, according to Rychard (1992), depends upon whether people "accept and subordinate themselves to the existing institutional system". It is widely agreed that by the end of the 1980s, the communist regime suffered from a chronic and irrecoverable loss of legitimacy. Yet democratic governments also have to concern themselves with maintaining legitimacy, as defined as an acceptance of the institutional system. Rychard expressed the fear that the post-communist, democratic governments would not place sufficient attention on creating a base of legitimation for the reform process. The system needs an addressee, and the "legitimacy gap" of post-Solidarity politics originated in the lack of overt constituency building once the previous system had been rejected. Post-socialist legitimacy is strong in terms of ideology and everyday behavior, but particularly weak in the area of institutions. This lack of legitimacy of political institutions led to low voter turnout and depressed confidence levels. Passivity to reforms, Rychard asserts, may become resistance because Poland focused more on values than on interests, the expression of which are essential for the proper functioning of economic and political institutions. Furthermore, support which is based on emotion is more susceptible to manipulation than that based on reason. Rychard seems to imply that transition will mean a move from a generalized to an interest- and sector-specific calculation of whether to accept the institutional structure. While I would agree with the importance of growing differentiation of interests, I would not overemphasizing the idea that the Mazowiecki government's neglect of developing value-led acceptance of reforms led to growing active opposition to the costs of reform.

The material interest of the individual is the primary influence on the personal acceptance or opposition to transition. However, social status, conditions of work, and level of personal consumption in the new system are *ex ante* unknown. In calculation of future economic and social status, individual characteristics such as age, education, capabilities, talents, and preferences are also important, and one might also add further connections. Individual attitudes may be predicted by certain fundamental variables, including people's perceptions of their own capabilities and their present

and future skill use in employment, their expected earning levels (and how quickly these are or are not reached), and expected changes in living standards and consumption levels, especially negative effects as rents or privileged access under the socialist regime becomes redundant. Expectations of future well-being are based on this imperfect knowledge as well as ideas about the rules of the game under markets and democracy, in comparison to the known rules under the existing system. In contrast, the “market myth” theories cited above proposed that these calculations are based on antitheses of the worst aspects of the socialist system.

6.2 VOTING PREFERENCES UNDER UNCERTAINTY

The following discussion introduces a way of thinking about voting behavior under circumstances of uncertainty about the true state of the economy and the optimal policy set. But first, this discussion of voting under uncertainty need to address parties.

The model presented by Lopez Murphy and Sturzenegger (1993) is not aided by assuming that parties can be divided into pragmatic-populists and ideological-reformers. While they argue that pragmatists may not be punished for selecting policies which are at odds with their original policy statement, they do not explain how the ideological party got elected in the first place. The following argument works by placing probabilities on whether a party will choose the optimal policy even if their original understanding of the policymaking environment is wrong. A completely ideological party will continue to follow their policy preferences even if they turn out to be inappropriate or costly. So, even if the voter agrees with the ideological stance of the doctrinaire party, if the policy goes wrong, or if their understanding of the state of nature is wrong, there is a 0% probability that the party will choose the best policy option.

On the other hand, a more pragmatic party has the flexibility to implement the less-desired policy if it turns out that this is the best option. If the pragmatic party will choose the socially optimal policy, even if this is against their electoral promises, with a 100% certainty, then why would the voter choose the ideological party? Even if they agreed with their values and ideals, there is a greater certainty that the

pragmatists would choose the best policy option even if there is a shift in the economic environment.

The real world is, of course, very different. As with the statement of the balance of social and personal interests in voters' preferences, as presented in Chapter 5, political parties may also act with a balance of ideological and pragmatic preferences. We can conceptualize this idea by placing political parties along a spectrum. At the midpoint is complete pragmatism, with higher values for ideological goals further away from the center. The two arms of the spectrum can be considered as liberalism and interventionism, in this example.

Let us assume that there are two parties, each of which combines a motivating, ideological preference with pragmatism. In the instance that either party is incumbent, and faced with a situation where their original assumption about optimal policies is wrong, there is a 50% chance that they will deviate from their values and choose the better policy program.

If the voter can choose between these two parties in an election, then it makes sense for them to choose the pragmatic party which shares common norms. Table 6.1 illustrates this point.

TABLE 6.1
VOTING CHOICE WITH COMPETING IDEOLOGIES

<i>Party's policy choice</i>	<i>Voter's preference</i>	<i>Probability of party doing what voter wants</i>
Party A		
Right	Right	100%
Right	Wrong	50%
Party B		
Right	Right	50%
Right	Wrong	0%

Remember, that in this stage of the argument the parties are pragmatic optimizers, and in the instance that they have misinterpreted the state of nature, will choose the optimal policy 50% of the time when it turns out to be one they originally opposed. The first column simply represents that we are considering the likelihood of the party making the right policy choice. The second column refers to whether the voter's pre-election policy preference is right or wrong, given the real environment.

The final column presents the probability of the party making the optimal policy choice. If the voter chooses a party with an opposing ideological view, then there only a 50% chance that they will do what the voter wants, even if the voter is right. It makes much more sense to vote for the party with shared ideological preferences, for even if these choices are wrong, there is still a 50% chance that the party will implement the policy which benefits the voter. Furthermore, this argument retains the most important result reached by Lopex Murphy and Sturzenegger (1993), which is that voters may not necessarily punish a party for changing their policies to ones they originally opposed if necessity demands it.

However, through this thesis it has been emphasized that Poland and the other post-communist countries have been operating in circumstances of greater economic uncertainty. Given this uncertainty, let us assume that voters estimate that they have a 70% -- that is, a better than even -- chance that their understanding of the economy and personal interests is correct. Again, we assume that the voter shares ideological affiliation with Party A, and that there is a 50% chance of both parties acting pragmatically in demanding circumstances.

TABLE 6.2
VOTING BEHAVIOR UNDER UNCERTAINTY

	<i>Right policy</i>	<i>Wrong policy</i>	<i>Probability</i>
Party A	$1.0 \times 0.7 = 0.7$	$0.5 \times 0.3 = 0.15$	0.85
Party B	$0.5 \times 0.7 = 0.35$	$1.0 \times 0.3 = 0.3$	0.65

If the voter is right about his policy preferences, then there is a 70% chance that the preferred Party A will implement the right policy. If the voter mistakenly supports the wrong policy for the conditions, then there is only a 15% chance that the party with the same preferences will enact what would be a costly reform. Totaling these figures, there is a probability of 85% that the party sharing ideological preferences will enact the policy which is best for the voter. In contrast, if the voter is correct, then there is only a 35% chance that Party B will enact the preferred policy if assumptions as to the state of nature are correct. If the voter is wrong, this ratio falls to 30%, giving a total of 65% that Party B will implement the socially optimal policy.

Under uncertainty, the outcomes are harder to predict, as is the behavior of parties. This discussion implies a further proposition, which could be developed

further in future research, that if a party becomes identified as more ideological and less pragmatic, that is, if the 50% ratio decreases, it may lose votes. This could especially happen if a party implements a socially unpopular but economically necessary policy. Faced with having to implement an unpopular program, the incumbent party may feel compelled to commit itself to the policy. If the opposition can convey this into greater ideological rigidity in the incumbent, as compared to the opposition's pragmatism, then the opposition may be able to attract votes and the voter punishes the incumbent. The opposition can gain political capital by criticizing the reform, even if it is the best policy. As for the electoral costs of ideological commitment to reform, we may refer to the electoral defeats of reformers in Poland and Russia. Arguably, reformers have stayed in power in the Czech Republic because of lower economic uncertainty, most importantly the low unemployment rate. Recent events, which has seen the former-communist opposition gain popular support during a time of rising unemployment rates, may indicate that this mechanism works there as well. While this is only a brief exposition of the ideas, this is a proposal for future research in the political economy of post-communist reform.

The prospect for this research proposal is bolstered by the similarities between the history of the political recovery of the former communists in Poland to the model of party and voter behavior described in Murphy and Sturzenegger (1993, 1995) and extended above. Economic reforms are initiated in an environment of uncertainty by a liberal party with ideological ties to market reform. The opposition casts itself as a pragmatic party concerned with maximization of social welfare. While in opposition, the pragmatic party criticizes the incumbent's reforms, even if they plan on implementing the same reforms when in office. Since the pragmatic party will choose the socially optimal policy, the rational voter chooses the pragmatic party. Yet to what extent has the SLD been able to react itself as the pragmatic reformer with socially-responsible ideals? The next section compares this analysis with competing interpretations of the pivotal 1993 elections.

6.3 THE POLITICAL ECONOMY OF POLAND'S 1993 PARLIAMENTARY ELECTION

The victory of post-communist parties in the 1993 Sejm election spurred a range of papers which sought explanations for the election outcome in economic factors. If democracy is defined as political competition between parties which represent social interests, the increased economic differentiation in Poland makes the form of the emerging party system even more important. Yet interests as defined by the balance of gains and losses experienced during transition, are only revealed over time. As shown in the tables on employment in Chapter 4 and "real" income in Chapter 3, there has been real volatility in these variables over time. Yet despite this uncertainty, or more probably because of it, the key issues have been defined early on: living standards, employment, and poverty.

Chan (1995) attributed the 1993 election result to three factors: social hardships caused by transition, widespread disillusionment with post-Solidarity parties' domination over the political arena, and the change in the electoral system (change from proportional list system to majority constituency seats, introduction of thresholds). The last point is certainly the factor behind the SLD and PSL gaining a comfortable majority of seats. These two parties came in one and two at the top of the poll, but only attracted 35.8% of the vote as compared to 67.9% of seats. The first and second reasons given by Chan may be accurate for certain sections of the electorate, but it is difficult to generalize such assumptions.

Gibson and Cielecka (1995) reach similar conclusions, where the SLD attracts votes from groups which have "lost out" from economic reforms, including state sector and budget sector workers and pensioners; they do not mention the unemployed but do mention the support from employers and a section of entrepreneurs. The SLD's winning platform, in this interpretation, centered on greater social spending and a more evenly distributed "sacrifice". As in Chapter 5 herein, Gibson and Cielecka find a close correlation between higher unemployment and SLD support. Also significant was the proportion of employees working on state farms; the opinion data cited earlier in this section showed that agriculture and forestry workers felt they were very likely to lose their job, and this is verified by Figure 4.4 and Appendices 4.2 and 4.3.

Such arguments can be refined, to emphasize the links between economic welfare and voting behavior. In Chapter 5, I provide evidence that there are observable patterns of party preferences according to unemployment, income, and livelihood. Disillusionment is more difficult to measure. Perhaps a more positive way of expressing the idea of disillusionment is captured in the concept of the *anti-status quo bias*.

Fernandez and Rodrik (1991) wrote an important paper on how individual-specific uncertainty about the distributional effects of an economic reform plan (the *ex post* identity of winners and losers) could bias the electorate in favor of the status quo and against the uncertainty of reform. After the reform is implemented -- by an autocrat in Fernandez and Rodrik's paper -- as the benefits of reform are revealed and the number of winners increases, the electorate begins to support the reform.

By inverting this argument, we can obtain a means of understanding the Polish transition. For reasons discussed earlier (the scale of the crisis, political delegitimization of the PZPR, failed socialist reforms), the population in late 1989 was solidly behind the Balcerowicz Plan, and there was little effective opposition in the parliament. Desperate times called for decisive measures. As stated earlier, Balcerowicz's team did not place much emphasis on communicating with the public. The public were aware that reform was meant to eliminate the inefficiencies of the old system. What was much less certain for all observers was the scale of the transitional costs. During the first months of the stabilization program, the inflation rate started to ease down from hyperinflationary levels. The benefits of liberalization became apparent through full shelves and flows of consumer goods. People were prepared to experience hardships, and the drop in real wages constituted a shock to the average person. As enterprises started shedding more labor, more firms were threatened with bankruptcy, budget austerity began to bite into education and health spending, and wages failed to recover quickly, there was a growing opposition to reform amongst those who were in disadvantaged positions relative to the market. Kitschelt (1993) called these people with "market-variant skills": people who were in demand and treated well under socialism, but ended up at the bottom of the ladder under the market. As shown in this dissertation, uncertainty is greater for these groups, and an

increase in the group of losers from reform, e.g. the number of unemployed, could cause a shift in political preferences towards more redistributive policies.

Zagorski (1994) also discussed the September 1993 election in reference to economic indicators. The election return is associated with higher unemployment, cuts to the welfare system, and lower real incomes for the majority in the society, all either sources of greater economic uncertainty for households. Zagorski also refers to the impact of transition on the standard of living, as demonstrated by a higher share of household incomes being allocated towards purchasing food (Engel's law). The increase in votes for the SLD is attributed to increasing differentiation in living standards, lack of job security, and reduction in the social safety net. PSL won votes from farmers on policy preferences for agricultural price controls and guarantees and slower privatization. Overall, Zagorski concludes that the majority of votes went to parties which campaigned on anti-liberal slogans supporting vaguely worded promises of greater budget spending, slowed privatization and higher protection of the domestic market. Unlike this dissertation, survey data gathered by Zagorski and compared with CBOS data revealed no substantial relation between socioeconomic status and political opinions once controls are put in place for education.

As shown in Chapter 5, I agree with Zagorski's conclusions about the role of unemployment, although perhaps with a slightly different interpretation. As regards to the importance of cuts to social security, my own regressions showed no discernible pattern for voting behavior in areas with higher numbers of pensioners or social benefit recipients, nor by differing levels of benefits. However, the growing role of demands for sector-specific distribution mentioned by Zagorski argues strongly for voting patterns to be discernible by socioeconomic group or employment status. Education is an important factor in acceptance of market reforms. The point Zagorski makes is also made by Marody (1995) on the basis of independent public opinion research.

As for the argument about Engel's Law as an indication of falling living standards, an argument also used in Kabaj and Kowalik (1995), Table 3.14 shows that this argument is much more complex. The share of food in total monthly expenditures rose more dramatically between 1988 and 1989 for all household groups than it has in any year during transition, suggesting a worsening of living standards as

other expenditure is diverted to preserve levels of food consumption. Yet this contradicts with figures showing greater ownership and accumulation of durable goods. In comparison with 1989, employees, worker-farmers and farmers experienced a rise in the percentage of total expenditure allocated to food; pensioners registered a slight decline in this ratio. Then, for the years 1991-1994 inclusive, all households reduced the share of spending going towards food, with the exception of worker-farmers in 1993, implying an improvement in material conditions. To complicate the picture further, as detailed in Chapter 3 the liberalization of the consumer market fundamentally changed consumption and savings patterns. Poles do spend more of their total income on food than in other industrialized countries, but they also tend to eat greater quantities⁶. Simple interpretations, therefore, often do not capture the whole story.

Zubek (1995), in contrast, emphasizes the SLD's successful transformation to a social democratic party in their electoral success. The OPZZ, a constituent member of the SLD, recruited and retained members by emphasizing labor and basic living standard issues. In the campaign, the SLD profited from being able to blame the hardships of reform on UD and, in the run-up to the 1993 election, on the policy choices of the Suchocka government. Zubek also underlines how, through its use of "independent" allies including the current prime minister Cimoszewicz, the SLD carefully cultivated their image as professional, experienced and pragmatic rather than as allied to one ideology. In the 1991-1993 parliament, the SLD focused on criticizing the incumbent government on specific public policy issues and offered alternatives based on a general model of Scandinavian-style social democracy without questioning the general direction of reform. Their critiques centered on how the speed of transition had caused "severe economic hardships and rapidly growing unemployment" (Zubek 1995, p. 293), and their remedies included preservation of the state sector, agricultural protection, increasing pensions at or above the rate of inflation, and rejecting the "doctrinaire" monetary policies of the UD government. Yet, most amazingly, Zubek cites the final advantage of the centrist SLD as that "it could be assigned no responsibility for the socioeconomic hardships caused by the

⁶ *Maly Rocznik Statystyczny*, 1996, p. 415. The average Pole ate 147 kilograms of potatoes in 1993, compared to 74 kilos in Germany, 57 in Denmark, and 127 in Russia. Meat consumption is less than Western Europe but similar to Central and southern Europe.

transformation” (p. 295). This is amazing, considering that the urgency of reform in late 1989 was caused by the PZPR pushing the country into acute economic crisis and collapse. While this dissertation emphasized the importance of changed economic conditions, a party’s ability to alter the public’s perception of it and its ability to target key constituencies with a balance of ideology and pragmatism has been absolutely essential. No one could argue that an unreformed PZPR would have been able to garner public support as the SLD has.

The importance of campaigning and party identification in this interpretation of the 1993 election result in Poland can be supplemented by looking at Hungary’s parliamentary election of May 1994. In this election, the coalition led by the opposition-based Hungarian Democratic Forum was supplanted by the Hungarian Socialist Party, the successor to the Hungarian communist party. The resurgence of the HSP is in part attributed to negative evaluations of the HDF. Racz and Kukorelli (1995) comment that in the public eye, the HDF had acted with “consistent indifference toward the spreading social misery and unemployment”. In contrast, the HSP was perceived to be the “pragmatic” party oriented towards forwarding reform but while alleviating the social costs of reform. In post-communist democracies, it becomes a liability to become too closely aligned with one policy set, particularly one which may be economically necessary but in some aspects unpopular. This is especially true when commitment to reform takes on an ideological or demagogic appearance. Post-communist parties have profited by recasting themselves in a social democratic-pragmatic mold, and by targeting concerns over “social costs” in an environment of heightened economic uncertainty.

6.4 CONCLUSIONS

The research program described in this dissertation set out to investigate the political economy of reform in Poland, and to answer questions which have not consistently received adequately objective coverage. The central question concerned the link between the distributional effects of the economic reform program and voting behavior. It has almost been accepted as a truism that the 1993 and 1995 election outcomes resulted from a public dissatisfaction with the course of reform. While, as

detailed above, numerous analyses have suggested a general impoverishment of society was the main force behind political choice, my hypothesis centered on the argument that the costs and benefits of transition have fallen unevenly across social and occupational groups, and that these distributional effects have translated into shifts in voting patterns.

To establish the context for presentation of the findings of the research project, Chapter 2 outlined the key elements in the political and economic transition in Poland, dividing transition into four phases: pre-reform crisis, extraordinary politics, post-reform crisis, and recovery. Its most important message was the refinement of the concept of the political honeymoon beyond a high level of popular opinion to include the facilitating nature of Poland's 1989-1991 "contract parliament".

I then proposed that the new political economy of *cui bono* in Poland would come more to resemble that of advanced market economies. This has proved to be correct, especially in respect to the emerging labor market and poverty profile. As in European Union countries, agriculture has become a threatened sector. Overall, most political opposition to the reform process has centered around extracting protection or subsidization in the face of the need for painful restructuring and increased efficiency.

In Chapter 3, it was argued that the distortions of the socialist economy were so severe that the adverse impact of liberalization in prices and real incomes was offset by positive effects for supply and accordingly for domestic consumption. While statistically measured, "real" income declined by about 30% between 1989 and 1990, it has been estimate that the decline in real consumption was closer to 15%. It can even be argued that current patterns of consumer durable consumption are more comparable to what would be expected from an *increase* in income.

This research project has confirmed by first proposition, that the impact of transition has varied widely across social, economic and occupational groups. Within these categories, classes with proportionately higher numbers of winners and losers were identified, with the self-employed and the unemployed the most clearly defined of these. However, the research indicated that a larger section of the population than first assumed falls into a middle category, in which material conditions have not deteriorated as sharply as originally thought. Additionally, by

some measures the majority of the population experienced an improvement in material conditions, even during the recession years of 1990-1991.

From these findings, I proposed that voting patterns would also reflect differentiation according to economic performance. Basing my methodology on the work of Kramer (1972) and Lewis-Beck (1988), I proposed that evidence of economic voting would be evident through relating vote shares of candidates to regional variation in unemployment, per capita income, and selected variables reflecting structural factors such as the level of urbanization, private sector activity, and local dependence on farming. Considering the complex nature of Polish politics, it was surprising how much of the variation in voting patterns could be explained by these few variables. Furthermore, the consistency of these results across time is also impressive.

Through the regressions based on *województwo* data, Chapter 5 presented conclusive evidence that voting patterns do display differentiation by socioeconomic group and regional economic performance. Regions and groups with higher personal incomes and lower jobless rates were more likely to vote for pro-reform parties. Areas where lower-paid, industrial labor dominates are larger supporters of the "center-right", socially conservative and pro-labor parties. There is a substantial level of support for agrarian parties in rural areas. The dissertation also concluded that the most important factor behind the rise in support for the SLD has been the rise in unemployment. While the SLD is the largest pro-reform grouping in the Sejm, it is perceived as more inclined towards redistributive policies than UW, and has arguably marketed itself as the more socially responsive and pragmatic option. This argument takes into account the risk factor, where by a riskier economic environment -- as evidenced by rising levels of unemployment from 1990-1993 -- has affected voters' electoral choices.

Finally, the first part of this chapter aimed to place this discussion within a more theoretical model of political preferences. When parties can be differentiated by their policy preferences, as well as by their balance of pragmatism and idealism, it is rational for voters to choose a party which combined pragmatism with an ideological stance which lies close to their own preferences. Overly rigid or ideological parties,

including those committed to market reform, can be punished for lack of the responsiveness to public interests which underlies pragmatism.

Through this dissertation, the theme of unemployment has emerged repeatedly, with stronger implications than anticipated. I consider the role of unemployment in economic voting, and its influence behind the rise of the SLD, as the most important finding of this thesis. While the perennial dilemma of political economy is the difficulty of making assumptions about individual political choice from aggregate data, the research in this dissertation makes a solid argument that democracy consolidated incredibly quickly in Poland. A considerable amount of voting behavior can be explained in terms of rational choice, where the Polish electorate made informed calculations about their economic interests and voting accordingly.

As stated in the introductory section of Chapter 1, the case of Poland was considered in this thesis for several very specific reasons. First, Poland was the first of the Central and East European countries to introduce political competition, in the 1989 semi-free elections. After Lithuania, Poland experienced the first peaceful transfer of governmental power from the former opposition to the reconstituted former-communist, social democratic opposition. Another advantage of examining the case of Poland, in addition to the relatively good statistical data, is the ethnic and religious homogeneity of the population, which makes it easier to isolate economic factors in political choice. Furthermore, Poland's political and civic culture was quite advanced at the point of political transition, and the democratic system has consolidated more quickly than in many states of the former Soviet Union, for example.

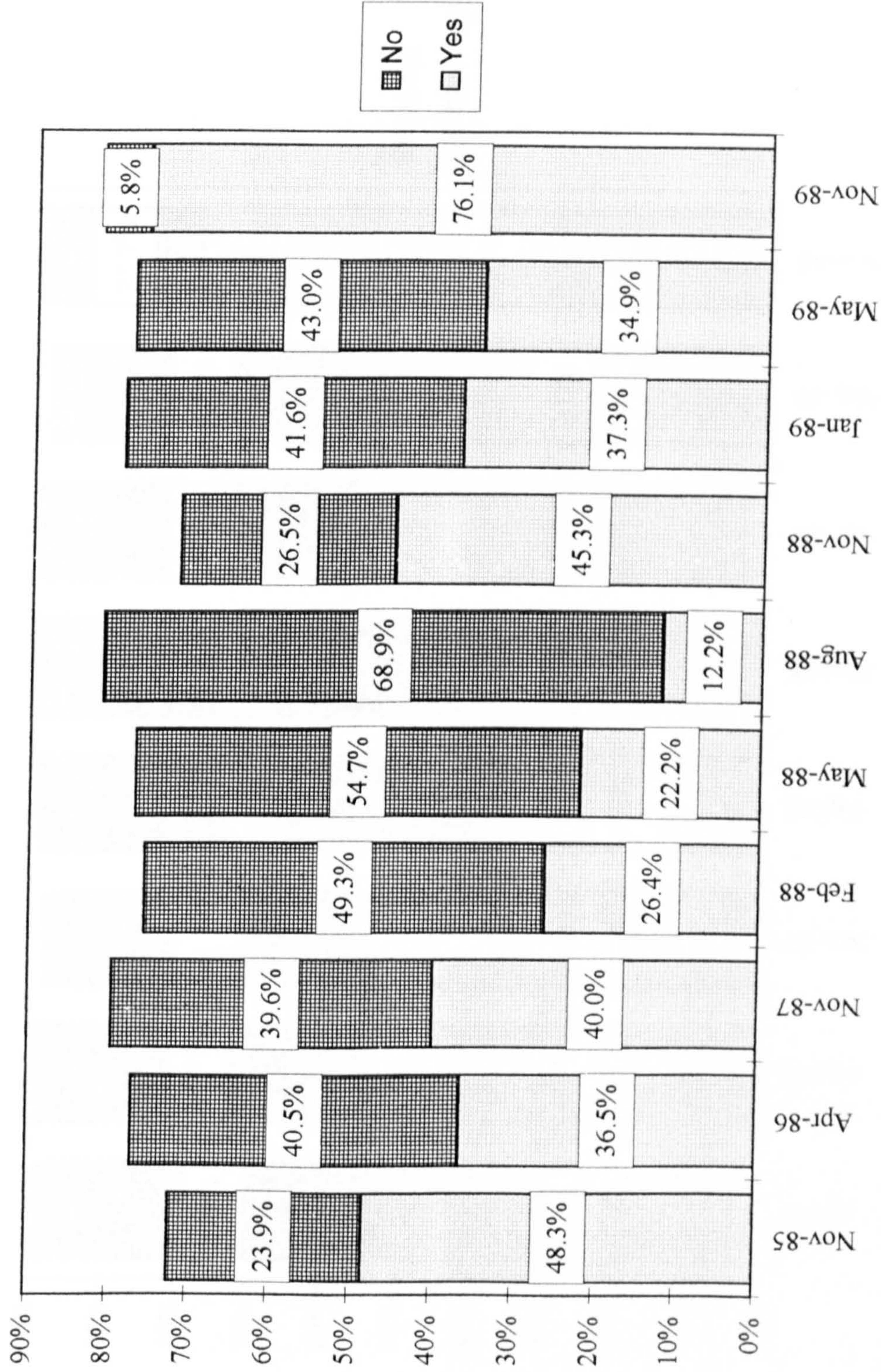
At the time this dissertation was started, Poland also provided several notable paradoxes. The political scene was high polarized and fractionalized, with rapidly shifting compositions of political parties and coalitions. Yet economic policy remained remarkably consistent in regards to stabilization and liberalization policies. Delay caused by political contest was mainly centered in privatization and pension reform, for instance. Also, there was a great deal of public discussion about the deep discontent and serious "social cost" of reforms across Polish society. This

contradicted the analysis of liberal economists who emphasized the benefits and gradual improvements of the post-"big bang" economy.

Having established this intellectual and methodological precedent, this study can be replicated in the other post-communist countries in Central Europe and the Baltics. Successful extension of this research into other countries would be facilitated by a record of several freely contested elections. It would be interesting to compare countries which have experienced changes of government and large swings in electoral support, such as Hungary and Lithuania, with the Czech Republic, where Klaus and the ODS are only now being seriously challenged by the reformed-communist opposition. This study would be particularly interesting in light of the recent increase in unemployment and other delayed troubles besetting the Czech economy.

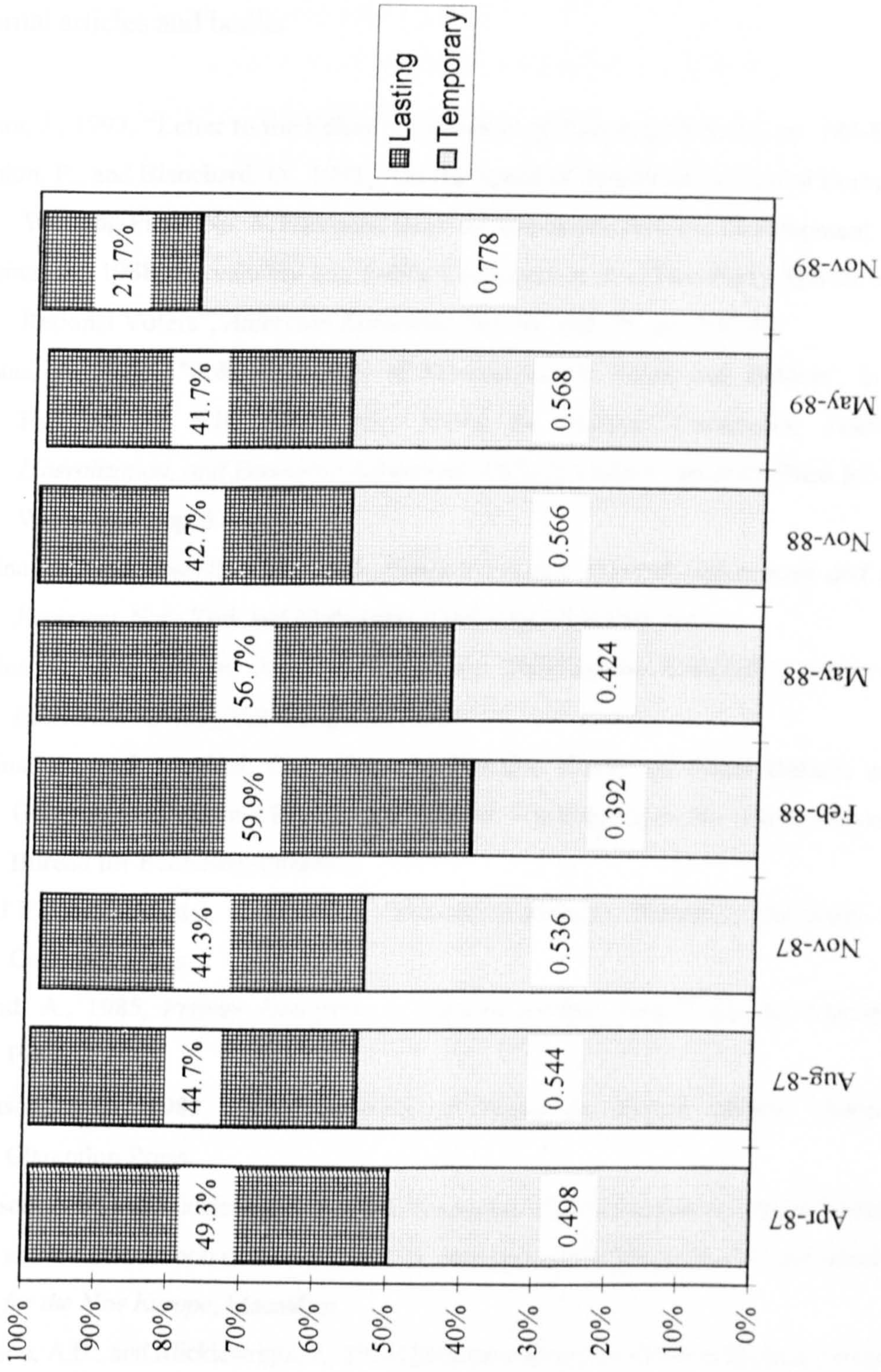
This research could also be continued through development of a formal model of economic voting in a post-communist country. It would be interesting to think further about how to model the level of uncertainty in the environment, and the risk-aversity of voters. One factor could be time, where in a situation of severe economic crisis, voters are more likely to accept risky policy choices. Another way to approach this topic may be through how the structure and characteristics of unemployment change through time and have evolving political consequences. The established literature on the political economy of reform, as partially detailed in this thesis, often emphasizes that political constraints to economic reform lie in the tendency of losers to emerge earlier and more clearly than winners. Pursuing the study of voting patterns during post-communist reform has the potential to add much more to our knowledge of the politics of economic reform.

FIGURE 6.1
CAN GOVERNMENT POLICY BRING THE COUNTRY OUT OF ECONOMIC CRISIS⁷



⁷ Source: CBOS, 1989, "Opinia o polityce gospodarczej rządu T. Mazowieckiego", Report No. 522/89.

FIGURE 6.2
ARE CURRENT DIFFICULTIES LASTING OR TEMPORARY?⁸



⁸ Source: CBOS, 1989, "Opinia o polityce gospodarczej rządu T. Mazowieckiego", Report No. 522/89.

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